

AVITA MEDICAL EUROPE LIMITED

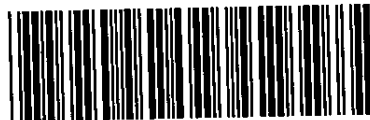
REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Company Number

4661707

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**AVITA MEDICAL EUROPE LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2010**

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**AVITA MEDICAL EUROPE LIMITED
FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2010**

COMPANY INFORMATION

Directors	Mr W Dolphin Mr D L Gooding
Secretary	Mr J McCann
Company Number	4661707
Registered Office	1st Floor, Unex House 132 - 134 Hills Road Cambridge CB2 8PA
Auditors	Grant Thornton UK LLP Byron House Cambridge Business Park Cambridge CB4 0WZ

**AVITA MEDICAL EUROPE LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010**

The directors present their report and financial statements for the year ended 30 June 2010

Results and Dividend

The loss for the year amounted to £2,994,444 (2009 £1,296,654) The directors do not recommend the payment of any dividends

Principal Activity

The principal activity of the company was that of commercialisation of the company's tissue engineering technologies

Review of Business

The company continued to focus on key markets where ReCell® is already approved for sale Sales of ReCell® have increased to £202,594 from £153,407 in the year ended June 2010 The loss after taxation for the year of £2,994,444 is a increase on the prior period loss of £1,296,654 due to the unfavourable movement in exchange rates in the year

The company continues to work towards obtaining approval in those European and African countries where ReCell® is not yet approved

Principal Risks and Uncertainties

The Board is responsible for overseeing the establishment and implementation of an effective risk management system and reviewing and monitoring the company's application of that system

The principal risks and uncertainties facing the company are the commercialisation challenges of bringing a new technology to market and the liquidity risk associated with the company's reliance on its parent company for funding

Future Developments

The company continues to focus on achieving sales penetration in key approved markets in line with the company's cash resources The company continues to sell asthma spacers in Europe, which are produced by a member of the Avita Medical group of companies

Directors

The directors who served the company during the year were as follows

Mr D L Gooding

Mr W Dolphin

The directors of the company have no interests in Avita Medical Europe Limited

All of the directors who served in the year are also directors of Avita Medical Limited, and their interests are disclosed in that company's financial statements

**AVITA MEDICAL EUROPE LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2010**

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

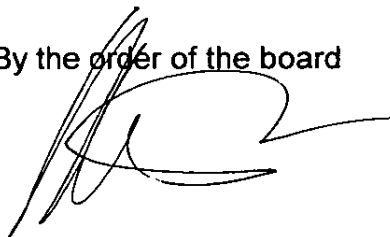
Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to appoint Grant Thornton UK LLP as auditors will be put to the members at the Annual General Meeting.

By the order of the board

A handwritten signature in black ink, appearing to be 'W Dolphin', written over a horizontal line.

**Dr W Dolphin
Director**

Date 14 September 2010

AVITA MEDICAL EUROPE LIMITED
Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVITA MEDICAL EUROPE LIMITED (Company no: 4661707)

We have audited the company's financial statements of Avita Medical Europe Limited for the year ended 30 June 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 June 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AVITA MEDICAL EUROPE LIMITED (CONT.) (Company no: 4661707)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge, United Kingdom

16 September 2010

AVITA MEDICAL EUROPE LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2010

		2010		2009	
	Notes	£	£	£	£
Turnover	2		202,594		153,407
Cost of sales			<u>(82,169)</u>		<u>(66,263)</u>
Gross profit			120,425		87,144
Other operating income		1,500		-	
Administrative expenses		<u>(3,227,434)</u>		<u>(1,382,607)</u>	
			<u>(3,225,934)</u>		<u>(1,382,607)</u>
Operating loss	3		(3,105,509)		(1,295,463)
Interest receivable and similar income		4,171		317	
Interest payable and similar charges		<u>(104)</u>		<u>(1,508)</u>	
			<u>4,067</u>		<u>(1,191)</u>
Loss on ordinary activities before taxation			(3,101,442)		(1,296,654)
Tax on Loss on ordinary activities	6		<u>106,998</u>		<u>-</u>
Loss on ordinary activities after taxation			<u>(2,994,444)</u>		<u>(1,296,654)</u>

There are no recognised gains or losses other than the loss for the year of £2,994,444 (2009 £1,296,654)
All turnover and operating expenses are generated from continuing operations

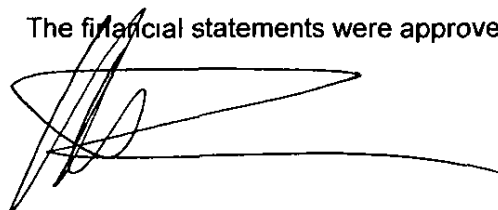
The accompanying accounting policies and notes form part of these financial statements

AVITA MEDICAL EUROPE LIMITED
BALANCE SHEET
AS AT 30 JUNE 2010

	Notes	£	2010 £	£	2009 £
Fixed Assets					
Tangible assets	7		<u>41,937</u>		<u>50,756</u>
			41,937		50,756
Current Assets					
Stock	8	19,729		19,270	
Debtors	9	149,113		150,679	
Cash at bank and in hand		<u>29,048</u>		<u>114,427</u>	
		197,890		284,376	
Creditors: amounts falling due within one year	10	<u>(132,060)</u>		<u>(126,130)</u>	
Net Current Assets			65,830		158,246
Total Assets less current liabilities			<u>107,767</u>		<u>209,002</u>
Creditors: amounts falling due after more than one year	11		(13,089,513)		(10,196,304)
Net Liabilities			<u><u>(12,981,746)</u></u>		<u><u>(9,987,302)</u></u>
Capital and Reserves					
Called up share capital	12		1		1
Profit and loss account	13		(12,981,747)		(9,987,303)
Shareholder's Deficit			<u><u>(12,981,746)</u></u>		<u><u>(9,987,302)</u></u>

The accompanying accounting policies and notes form part of these financial statements

The financial statements were approved by the directors and are signed on their behalf by



Dr W Dolphin
Director

Date 14 September 2010

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

1 Accounting Policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable UK accounting standards

At 30 June 2010 the company's liabilities exceeded its assets by £12,981,746 (2009 £9,987,302) The company has received confirmation from Avita Medical Limited, the ultimate parent company, that support will be provided to the company so that it is able to meet its obligations as and when they fall due for a period of not less than one year from the date of approval of these accounts The ability of Avita Medical Limited to provide this support depends on the group's financial position The group monitors the cash flow requirements on a regular basis to ensure that funding is secured in accordance with the group's business strategy Accordingly the accounts have been prepared on a going concern basis

All other accounting policies listed below have not altered from the prior year

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent company publishes consolidated financial statements

Related parties transactions

The company is a wholly owned subsidiary of Avita Medical Limited, a Holding Company registered and quoted on the Australian Stock Exchange Accordingly, the company has taken advantage of the exemption in Financial Reporting Standard No 8 "Related party disclosures" from disclosing transactions with members of the Avita Medical group

Turnover

Turnover comprises the value of sales (excluding VAT) of goods It is stated at the fair value of the consideration receivable, net of value added tax, rebates and discounts

Fixed assets

All fixed assets are initially recorded at cost

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows

Leasehold improvements	-	20% per annum, straight line
Fixtures & fittings	-	20% - 40% per annum, straight line
Computer equipment	-	40% per annum, straight line
Computer software	-	40% per annum, straight line

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances in the period indicate the carrying value may not be recoverable

**AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

1 Accounting Policies (continued)

Research and development costs

Research and development expenditure is charged to the profit and loss account as incurred

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows

Raw materials, consumables and goods for resale

- purchase cost on a first-in, first-out basis

Work in progress and finished goods

- cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date

All differences are taken to the profit and loss account

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Leased assets

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

1 Accounting Policies (continued)

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are included as either accruals or prepayments in the balance sheet.

Share based payments

Employees of the company are granted share options in the ultimate parent undertaking Avita Medical Limited. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by means of an appropriate pricing model.

No expense is recognised for awards that do not ultimately vest.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired. The movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

2 Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes

An analysis of turnover by geographical market is given below

	2010	2009
	£	£
United Kingdom	47,302	22,071
Mainland Europe	132,131	86,978
Middle East	23,161	-
Africa	-	44,358
	<u>202,594</u>	<u>153,407</u>

3 Operating Loss

This is stated after charging

	2010	2009
	£	£
Depreciation of owned fixed assets	54,497	84,876
Auditors' remuneration - audit services	10,000	10,500
- non-audit services	2,750	2,000
Net loss/(gain) on foreign currency translation	2,393,944	(252,628)
Operating lease rentals - land and buildings	39,386	108,099
Provision against intercompany debt	-	837,239
	<u>-</u>	<u>-</u>

4 Staff Costs

	2010	2009
	£	£
Wages & Salaries	279,364	499,165
Social Security Costs	28,496	50,453
Other Pension Costs	20,490	32,249
	<u>328,350</u>	<u>581,867</u>

The average number of employees during the year was made up as follows

	2010	2009
	No.	No.
Administration & finance	3	2
Sales	2	2
Regulatory	-	1
	<u>5</u>	<u>5</u>

5 Directors' Emoluments

	2010	2009
	£	£
Wages & Salaries	-	92,339
Compensation for loss of office	-	69,598
Other Pension Costs	-	3,833
	<u>-</u>	<u>165,770</u>

No director accrued benefits under a money purchase pension scheme during the year (2009 1 director)

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

6 Taxation on loss on ordinary activities

(a) Analysis of charge in the year

	2010	2009
	£	£
Current tax		
Prior year over provision	(106,998)	-
Tax on loss on ordinary activities	<u>(106,998)</u>	<u>-</u>

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2009 - 28%)

The differences are reconciled below

	2010	2009
	£	£
Loss on ordinary activities before tax	<u>(3,101,442)</u>	<u>(1,296,654)</u>
Loss on ordinary activities multiplied by standard rate	<u>(868,404)</u>	<u>(363,063)</u>
Expenses not deductible for tax purposes	709	235,173
Depreciation in excess of capital allowances	7,011	8,117
Adjustment in respect of previous periods	(106,998)	-
Unrelieved tax losses carried forward	860,684	119,773
Total current tax	<u>(106,998)</u>	<u>-</u>

(c) Deferred tax

A net deferred tax asset of £3,381k (2009 £2,707k) has not been recognised in respect of the tax losses as there is insufficient evidence that the asset would be recoverable

The unrecognised deferred tax asset would be recoverable to the extent that the company generates sufficient taxable profits in the future

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

7 Tangible Fixed Assets

	Computer Equipment £	Computer Software £	Leasehold Improve- ments £	Fixtures & Fittings £	Total Assets £
Cost					
At 1 July 2009	45,832	43,915	213,148	32,166	335,061
Additions	13,177	8,042	24,407	9,064	54,690
Disposals	(31,570)	-	(213,148)	-	(244,718)
At 30 June 2010	27,439	51,957	24,407	41,230	145,033
Depreciation					
At 1 July 2009	39,699	27,712	190,307	26,587	284,305
Charge for the period	4,889	12,872	24,931	11,805	54,497
On disposals	(31,399)	-	(204,307)	-	(235,706)
At 30 June 2010	13,189	40,584	10,931	38,392	103,096
Net book values					
At 30 June 2010	14,250	11,373	13,476	2,838	41,937
At 30 June 2009	6,133	16,203	22,841	5,579	50,756

8 Stocks

	2010 £	2009 £
Raw materials	608	515
Finished goods	19,121	18,755
	19,729	19,270

9 Debtors

	2010 £	2009 £
Trade debtors	21,378	43,515
Other debtors	8,719	20,179
Prepayments and accrued income	30,763	74,874
Amounts due from other group companies	17,383	-
VAT and other tax refunds due	70,870	12,111
	149,113	150,679

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

10 Creditors: amounts falling due within one year

	2010	2009
	£	£
Trade creditors	27,493	66,124
Other creditors	3,101	3,390
Accruals and deferred income	83,346	49,207
Social security and other taxes	16,104	7,409
Pension creditor	2,016	-
	<u>132,060</u>	<u>126,130</u>

11 Creditors: amounts falling due after more than one year

	2010	2009
	£	£
Amounts owed to group undertakings	<u>13,089,513</u>	<u>10,196,304</u>

The Company is financed by group borrowings on which no repayment is expected to be made before 30 June 2011. The borrowings are denominated primarily in AU\$ and gains and losses arising on translation are charged to operating expenses.

12 Share capital

	2010	2009
	£	£
Authorised		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
1 Ordinary share of £1 each	<u>1</u>	<u>1</u>

13 Reconciliation of shareholders' funds and movement on reserves

	Share capital	Profit and loss account	Total shareholders' funds
	£	£	£
At 1 July 2009	1	(9,987,303)	(9,987,302)
Loss for the year	-	(2,994,444)	(2,994,444)
At 30 June 2010	<u>1</u>	<u>(12,981,747)</u>	<u>(12,981,746)</u>

14 Share based payments

Employees are granted share options in the ultimate parent company, Avita Medical Limited. These options vest in three tranches and the contractual life of each option granted is three years.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options in the year. The WAEP is quoted in Australian \$ as that is the functional and presentation currency of the Avita Medical Limited.

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

14 Share based payments (continued)

	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding as at 1 July	-	-	155,000	0 35
Lapsed during the year	-	-	-155,000	0 35
Outstanding as 30 June	-	-	-	0 35
Exercisable as 30 June	-	-	-	-

No options were granted during the year

15 Pensions

The company participates in a group personal pension scheme which is defined contribution in nature. The pension charge for the year was £20,490 (2009 £32,249). At the year end there were contributions outstanding of £2,016 (2009 £nil).

16 Operating lease commitments

At the end of the period the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2010 £	2009 £
Operating leases which expire		
Within one year	41,699	-
Within two to five years	-	18,954

**AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

17 Ultimate parent company and Controlling Party

The immediate and ultimate parent company and controlling party is Avita Medical Limited, which is registered and quoted on the Australian Stock Exchange. Copies of group financial statements are available from its registered office Level 9 The Quadrant, 1 William Street, Perth, WA 6000, Australia