AVITA MEDICAL EUROPE LIMITED

Company Number 4661707

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the 18 months ended 31 December 2021

Contents

Company Information

Directors
Dr Michael Perry
Michael Holder
Donna Marie Shiroma

Company Number
4661707

Registered Office
Wellington House
East Road
Cambridge CB1 1BH

Auditor
Grant Thornton UK LLP
Chartered Accountants and Statutory Auditor
101 Cambridge Science Park
Milton Road
Cambridge CB4 0FY

AVITA MEDICAL EUROPE LIMITED
DIRECTORS' REPORT

The Directors present their report with respect to the results of Avita Medical Europe Limited (the "Company") for the 18 months ended 31 December 2021.

Results and Dividend

The net profit after tax for the year amounted to £197,363 (30 June 2020: net profit of £ (17,993)). The directors cannot recommend the payment of any dividends.

Principal Activity

The principal activity of the company was that of sales of the Company's product and marketing services to the group.

Review of Business

The Company is a wholly owned subsidiary of AVITA Medical, Inc. (formerly AVITA Therapeutics), a Delaware corporation, was originally formed in April 2020. The AVITA group of companies (comprising AVITA Medical, Inc. ("AVITA" or the "Company") and its subsidiaries, including AVITA Medical Pty Limited, previously known as AVITA Medical Limited, ("AVITA Medical")) (collectively, "AVITA Group" or "we", "us", or "our") is a commercial-stage regenerative medicine company focused on the treatment of burns, trauma and other acute injuries, together with skin defects like vitiligo. AVITA Medical Pty Limited, the former parent company of the AVITA Group, began as a laboratory spin-off in the Australian State of Western Australia. Clinical Cell Culture (C3) (being the prior name of AVITA Medical) was formed under the laws of the Commonwealth of Australia in December 1992 and has operated as AVITA Medical since 2008. AVITA Medical's ordinary shares originally began trading in Australia on the Australian Securities Exchange ("**ASX**") on August 9, 1993. AVITA Medical's American Depositary Shares ("**ADSs**") traded over the counter on the OTCQX under the ticker symbol "AVMXY" from May 14, 2012, through September 30, 2019, and its ADSs began trading on the NASDAQ on October 1, 2019, under the ticker symbol "RCEL".

With effect from June 29, 2020, a statutory scheme of arrangement was implemented under Australian law to change the domicile of the AVITA Group from Australia to the U.S. Under the scheme of arrangement, AVITA Medical, Inc. being a company incorporated in the State of Delaware in the U.S., became the new parent company of the AVITA Group, and all ordinary shares in AVITA Medical (including ordinary shares represented by ADSs) held by securityholders were exchanged for shares of common stock or CHESS Depositary Interest ("CDIs"). As a result, the existing listing of AVITA Medical on the ASX (as its primary listing) and on NASDAQ (as its secondary listing) was inverted and replaced with a new listing of AVITA Medical, Inc. on NASDAQ (as its primary listing) under the existing ticker symbol, "RCEL", and on the ASX (as its secondary listing) under the existing ticker symbol, "AVH". AVITA Medical Inc. shares of common stock trade on NASDAQ and its CDIs trade on ASX (with five CDIs trading on ASX representing one share of common stock on NASDAQ).

The AVITA Group's lead product is the RECELL® System, a device that enables healthcare professionals to produce a suspension of Spray-On Skin™ Cells using a small sample of the patient's own skin. In September 2018, the United States Food & Drug Administration ("FDA") granted premarket approval ("PMA") to the RECELL System for use in the treatment of acute thermal burns in patients eighteen years and older. Following receipt of our original PMA, we commenced commercializing the RECELL System in January 2019 in the United States. In June 2021 the FDA approved an expanded indication to include treatment of pediatric acute full-thickness thermal burns. In February 2022, the FDA approved a PMA supplement for the RECELL® Autologous Cell Harvesting Device with enhanced ease-of-use, aimed at providing clinicians a more efficient user experience and simplified workflow. In addition, the FDA has granted the AVITA Group Investigational Device Exemptions ("IDEs") which have enabled the AVITA Group to initiate pivotal clinical trials to further expand the approval of the RECELL System for soft tissue reconstruction and vitiligo. Enrolment of those clinical trials is complete and, if successful, those studies would enable the AVITA Group to seek FDA approval to market the RECELL System in the United States in those indications.

The RECELL System is used to prepare Spray-On Skin Cells using a small amount of a patient's own skin, providing a new way to treat severe burns, and simultaneously significantly reducing the amount of donor skin required. The RECELL System is designed to be used at the point of care as a standalone product, or in combination with "skin grafts", known as split-thickness skin autografts, depending on the depth of the burn injury. The pivotal studies leading to the RECELL System's FDA premarket approval ("PMA") for the treatment of acute thermal burns, demonstrated that the RECELL System treated burns using 97.5 percent less donor skin when used alone in second-degree burns, and 32 percent less donor skin when used with autograft for third-degree burns compared to standard of care autografting. In these studies, a statistically significant reduction in donor skin required to treat burn patients with the RECELL System was realized without any associated compromise to healing or safety outcomes. Donor site outcomes from the clinical trial for second-degree burns also revealed a statistically significant reduction in patient-reported pain, increased patient satisfaction and improved scar outcomes.

Our compelling data from prospective, randomized, controlled clinical trials conducted at major United States burn centers, health economics modeling, and real-world use globally demonstrate that the RECELL System is a significant advancement over the current standard of care for burn patients and offers benefits in clinical outcomes and cost savings.

The RECELL System is Therapeutic Goods Administration ("TGA") registered in Australia cleared for use in the treatment of burns, acute wounds, scars and vitiligo. In Europe, the RECELL System received CE-mark approval for the treatment of burns, chronic wounds, scars and vitiligo. In February 2019, our marketing partner COSMOTEC filed a Japan's Pharmaceuticals and Medical Devices Act ("PMDA") application for approval to market the RECELL System in Japan for the treatment of burns and other wounds. In February 2022, COSMOTEC's application for regulatory approval was approved by the PMDA with labelling for treatment of burns. Presently, we are not actively marketing the RECELL System internationally and therefore do not derive meaningful revenue from the RECELL System in these markets.

Sales of the RECELL System decreased 31% to £92,773 in the 18-months ended December 31, 2021 (2020: £135,449) and Cost of sales decreased 42% to £62,948 (2020: £107,844). Administrative, sales and marketing expenses decreased 11% to £294,576 (2020: £329,993). The profit after taxation for the year was £197,363 (2020: profit after taxation of £17,993).

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 commercialization challenges of bringing a new technology to market and the liquidity risk associated with the company's reliance on its parent company for funding, along with managing through with the COVID-19 pandemic.

Future Developments

The company continues to focus on limited commercial efforts and primarily focused on filling orders from existing customers.

Directors

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

Dr. Michael Perry
Michael Holder (appointed 10 June 2021)
Donna Marie Shiroma

Timothy Rooney and David McIntyre resigned as directors on 4 August 2020 and 28 September 2020 respectively.

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 the date of approving the directors' report.

AVITA MEDICAL EUROPE LIMITED
DIRECTORS' REPORT

Auditors

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

Small Company Exemptions

In preparing this report the directors have taken advantage of the small company's exemption provided by section 415A of the Companies Act 2006.

By the order of the board

Michael Holder

Michael Holder
Director
Date: 29 September 2022

AVITA MEDICAL EUROPE LIMITED

Directors' responsibilities statement

The directors are responsible for preparing the Directors' 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, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Independent auditor's report to the members of Avita Medical Europe Limited

Opinion

We have audited the financial statements of Avita Medical Europe Limited (the 'Company') for the period from 1 July 2020 to 31 December 2021, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the period 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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; or
- the directors were not entitled take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:
We obtained an understanding of the legal and regulatory frameworks applicable to the Company and the industry in which it operates. We determined that the following laws and regulations were most significant: UK GAAP (FRS 102), Companies Act 2006 and the relevant tax compliance regulations in which the Company operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements, including laws and regulations relating to data security and protection and health and safety;

- We obtained an understanding of how the Company is complying with those legal and regulatory frameworks by making inquiries of management. We corroborated our inquiries through our review of board minutes;

- We enquired of management, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud. The Company's management has not noted any matters of non-compliance with laws and regulations or fraud that were communicated with the audit team. We corroborated this through our review of professional fees incurred during the year;

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (Continued)

- The assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the industry in which the client operates; and
  - understanding of the legal and regulatory requirements specific to the entity including the provisions of the applicable legislation, the regulators rules and related guidance, including guidance issued by relevant authorities that interpret those rules, the applicable statutory provisions.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit;
- We completed audit procedures to conclude on the compliance of disclosures in the financial statements with applicable financial reporting requirements.

Use of our report

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.

Grant Thornton UK LLP

Paul Brown
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
29 September 2022

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE 18 Months Ended 31 December 2021

	Notes	18 months ended 31 December 2021	12 months ended 30 June 2020
		£	£
Turnover	4	92,773	135,449
Cost of sales		(62,948)	(107,844)
Gross profit		29,825	27,605
Other operating profit		461,860	320,197
Administrative, sales and marketing expenses	6	(294,576)	(329,993)
Operating profit	5	197,109	17,809
Interest income and similar income		254	184
Profit on ordinary activities before taxation		197,363	17,993
Tax on loss on ordinary activities	8	-	-
Profit on ordinary activities after taxation		197,363	17,993
Profit for the period attributable to owners of the parent		197,363	17,993
Total Comprehensive Profit for the year – due to the parent		197,363	17,993

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2021

	Notes	As of 31 December 2021	As of 30 June 2020
		£	£
Non-current assets:			
Tangible fixed assets	9	1,081	1,088
Total non-current assets		1,081	1,088
Current assets:			
Stocks	10	12,419	8,544
Debtors	11	274,918	14,425
Cash at bank and in hand		35,826	50,653
Total current assets		323,163	73,622
Creditors: Amounts falling due within one year	12	(80,626)	(64,387)
Net current assets		242,537	9,235
Total assets less current liabilities		243,618	10,323
Creditors: Amounts falling due after more than one year	13	-	(5,174,840)
Net Liabilities		243,618	(5,164,517)
Capital and Reserves:			
Called up share capital	15	5,211,999	1,227
Share premium		19,714,812	19,714,812
Profit and loss account		(24,683,193)	(24,880,556)
Shareholders' equity (deficit)		243,618	(5,164,517)

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:

Michael Holder

Michael Holder
Director
Date: 29 September 2022

Company Number: 4661707

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE 18 MONTHS ENDED 31 DECEMBER 2021

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 July 2020	1,227	19,714,812	(24,880,556)	(5,164,517)
Share issuance	5,210,772	-	-	5,210,772
Profit for the period	-	-	197,363	197,363
Total comprehensive profit for the year	-	-	197,363	197,363
At 31 December 2021	5,211,999	19,714,812	(24,683,193)	243,618

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 July 2019	1,227	19,714,812	(24,898,549)	(5,182,510)
Profit for the period	-	-	17,993	17,993
Total comprehensive profit for the year	-	-	17,993	17,993
At 30 June 2020	1,227	19,714,812	(24,880,556)	(5,164,517)

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

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. Corporate Information

The Company is a private company limited by shares incorporated in England and Wales and its Principal Place of Business and Registered Office is Wellington House, East Road, Cambridge CB1 1BH.

2. Summary of Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards including Financial Standard 102 – "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102), and with the Companies Act 2006. The financial statements have been prepared at the historic cost basis.

The financial statements are presented in Sterling (£) which is the company's functional currency.

Change of Year-End

On November 8, 2021, the AVITA Group changed its fiscal year-end from June 30th to December 31st, effective immediately. The decision to change the fiscal year-end to a calendar year end was to align the Group's reporting cycle more closely with how the business is managed. Given the change in the fiscal year-end the comparative periods are not comparable.

(b) Revenue recognition

Revenue is recognized and measured at the fair value of the consideration received or receivable to the extent it will not be reversed. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from the sale of goods is recognized when the control of the goods have passed to the customer at an amount that reflects the consideration expected to be received in exchange for the product. Control is considered passed to the buyer at the time of shipment of the goods to the customer.

Interest income
Revenue is recognized as interest accrues using the effective interest method.

(c) Cash flow statement

In accordance with FRS 102, the company has taken advantage of the exemption under Section 7 "Statement of Cash Flow" not to present a statement of cash flow and related notes and disclosures. In accordance with the exemption the financial statements of the company are consolidated in the financial statements of its ultimate parent company, AVITA Medical, Inc., copies of which are published and available to the public. The public can obtain any documents that the group files with the SEC at www.sec.gov. In addition, copies of announcements made by the Company to ASX are available on the ASX website (www.asx.com.au) and also, under the heading "Investors: Press Releases" at the following link on our website(https://ir.avitamedical.com/press-releases).

(d) Related party transactions

The company is a wholly owned subsidiary of Avita Medical, Inc. Accordingly, the company has taken advantage of the exemption in FRS 102 from disclosing transactions with members of the Avita Medical group.

(e) Leases

Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognized as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

2. Summary of Significant Accounting Policies (continued)

(f) Debtors

Trade receivables, which generally have 30 to 90-day terms, are recognized initially at transaction price, less an allowance for impairment.

(g) Stocks

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for at purchase cost on a first-in, first-out basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving or defective items where appropriate.

(h) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs.

(i) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency by applying the exchange rates ruling at the date of the transaction and marked to market every reporting period. All translation differences are taken to the Statement of Comprehensive Income.

(j) Tangible Fixed Assets

The Company's fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is computed based on the straight-line method over the estimated useful lives of the various classes of assets. The ranges of estimated useful lives for the principal classes of assets are as follows:

Computer equipment – 3 years

The Company reviews its long-lived assets for impairment annually, or when events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. An asset is considered impaired when the recoverable amount, which is the higher of fair value less costs to sell and its value in use, is less than the net book value. The excess of the net book value over its fair value is charged as impairment loss to profit and loss account.

Repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred. Gains and losses on disposal are determined by comparing the proceeds on disposal with the carrying amount and are included in profit or loss.

(k) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognized in the Statement of Comprehensive Income, except that a change attributable to an item of income and expense recognized as other comprehensive income or to an item recognized directly in equity is also recognized in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the statement of financial position date in the countries where the company operates and generates income.

Deferred tax balances are recognized in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

2. Summary of Significant Accounting Policies (continued)

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognized in respect of permanent differences. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date. Deferred tax balances are not discounted.

(l) 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 Statement of Financial Position.

(m) Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortized cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortized cost.

Financial assets that are measured at cost and amortized cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognized in the Statement of Comprehensive Income.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and recoverable amount, which is the higher of fair value less costs to sell and value in use.

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(n) Research and development costs

Expenditure during the research phase of a project is charged to the Statement of Comprehensive Income as incurred.

(o) Going concern

These financial statements have been prepared on the basis of going concern, which contemplates the continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business. As of 31 December 2021, the company has net assets of £243,618 and made a net profit after tax of £197,363.

For future cash flow requirements, the company remains dependent upon the parent company Avita Medical, Inc. The Company has received confirmation from the 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 AVITA Group has historically funded its research and development activities, and more recently its substantial investment in sales and marketing activities, through raising capital by issuing securities, and it is expected that similar funding will be obtained to provide working capital if and when required. If the Company is unable to raise capital in the future, the Company may need to curtail expenditures by scaling back certain research and development or other programs.

On March 1, 2021, the AVITA Group issued 3,214,250 shares of common stock at the offering price of US$21.50 per share. The gross proceeds from the offering are approximately US$69.1 million. The Company incurred US$5.1 million in capital issuance expenses.

Given the above, we believe there is presently sufficient working capital to support our operating activities over the next twelve months and the company believes it has the ability to realize its assets and pay its liabilities and commitments in the normal course of business.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The main area of judgement is in relation to the going concern assumption.

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including current credit rating of the debtor, the aging profile of debtors and historical experience. See Note 11 for the net carrying amount of the debtors and associated impairment provision.

4. Turnover

Turnover represents amounts receivable for goods and services provided by the Company's principal activities, net of trade discounts, VAT and other sales related taxes.

An analysis of turnover by geographical market is given below.

	18 months ended 31 December 2021	**12 months ended 30 June 2019**
	£	**£**
United Kingdom	54,340	89,100
Europe	21,200	45,411
Rest of the world	17,233	938
Total	92,773	135,449

5. Operating profit

This is stated after charging:

	18 months ended 31 December 2021	12 months ended 30 June 2020
	£	£
Depreciation of fixed assets	1,700	1,160
Loss on disposal of tangible fixed assets	-	998
Auditor's remuneration – audit services	32,000	42,540
Auditor's remuneration – non-audit services	4,426	3,019
Change to Net (gain)/loss on foreign currency translation	(155,156)	23,916
Total	(117,030)	71,633

6. Administrative, sales and marketing expenses

This is stated after charging / (crediting):

	18 months ended 31 December 2021	12 months ended 30 June 2020
	£	£
Administrative expenses	75,639	58,894
Sales and marketing expenses	218,937	271,099
Total	294,576	329,993

7. Staff costs

	18 months ended 31 December 2021	12 months ended 30 June 2020
	£	£
Wages and salaries	308,718	208,127
Social security costs	34,334	21,486
Other pension costs	23,282	14,845
Total	366,334	244,458

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

	18 months ended 31 December 2021 No.	12 months ended 30 June 2020 No.
Administration, Clinical and Finance	nil	nil
Sales and Marketing	2	2
	2	2

No directors are remunerated through Avita Medical Europe Limited. Personnel compensation in relation to key management is processed through the parent company as such no amounts are recorded in the Company.

8. Taxation on loss on ordinary activities

The tax (credit) / charge is based on the results for the year and represents:

	18 months ended 31 December 2021	12 months ended 30 June 2020
	£	£
UK Corporation Tax	-	-
Adjustment in respect of prior periods	-	-
Tax on loss on ordinary activities	-	-

The tax assessed for the 18-month period is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained as follows:

	18 months ended 31 December 2021	12 months ended 30 June 2020
Reconciliation of tax charge	£	£
Profit on ordinary activities before tax	197,363	17,993
Tax on profit on ordinary activities at standard CT rate of 19.00% (PY: 19.00%)	37,499	3,419
Effects of:		
Expenses not deductible for tax purposes	97	62
Other permanent differences	-	175
Remeasurement of deferred tax for changes in tax rates	(1,410,989)	(474,829)
Movement in deferred tax not recognized	1,373,393	471,173
Tax charge/(credit) for the period	-	-

A net deferred tax asset of £5,879k (PY: £4,500) has not been recognized in respect of tax losses as there is insufficient evidence that the asset would be recoverable. The unrecognized deferred tax asset would be recoverable to the extent that the company generates sufficient taxable profits in the future.

On 3 March 2021, it was announced that the UK main rate of corporation tax will increase to 25% from 1 April 2023 for companies with annual taxable profits above £250,000. This is an increase of 6% from the current rate of 19%. Companies making annual taxable profits of £50,000 or less will continue to pay corporation tax at 19% with a marginal rate adjustment for companies making annual taxable profits between the two levels.

9. Tangible fixed assets

	Computer equipment	Total assets
	£	£
Cost		
At 1 July 2020	3,187	3,187
Additions	1,693	1,693
Disposals	(133)	(133)
At 31 December 2021	4,747	4,747
Accumulated Depreciation		
At 1 July 2020	2,099	2,099
Charge for the year	1,700	1,700
Disposals for the year	(133)	(133)
At 30 June 2020	3,666	3,666
Net book values		
At 31 December 2021	1,081	1,081
At 30 June 2020	1,088	1,088

10. Stocks

	As of	
	31 December 2021	30 June 2020
	£	£
Finished goods at cost	12,419	8,544

Stocks recognized in cost of sales during the year as an expense was £62,948 (2020: £107,844). The Company did not recognize an impairment loss against stock.

11. Debtors

	As of	
	31 December 2021	30 June 2020
	£	£
Amounts due from group undertakings	264,014	-
Other debtors	500	500
Trade debtors	5,100	8,451
Prepayments and accrued income	5,077	5,474
VAT and other tax refunds	227	-
Total	274,918	14,425

An impairment loss of £6,530 (2020: £5,638) has been recognized against trade debtors.

12. Creditors: amounts falling due within one year

	As of	
	31 December 2021	**30 June 2020**
	£	**£**
Trade creditors	1,069	3,463
Other creditors	38	-
Accruals and deferred income	69,637	54,742
Social security and other taxes	8,168	4,589
Pension creditor	1,714	1,593
Total	80,626	64,387

13. Creditors: amounts falling due after more than one year

	As of	
	31 December 2021	**30 June 2020**
	£	**£**
Amounts owed to group undertakings	-	5,174,840
Total	-	5,174,840

The company was financed by group borrowings with no fixed repayment terms or interest obligations. The borrowings were denominated primarily in AU$ and gains and losses arising on translation were charged to operating expenses.

14. Share capital

	As of	
	31 December 2021	**30 June 2020**
Allotted, called up and fully paid	**£**	**£**
Ordinary shares of £1 each	5,211,999	1,227
Total	5,211,999	1,227

Share capital – represents the nominal value of shares that have been issued.

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and repayment of capital. As of 31 December 2021 the Company had a total of 5,211,999 shares outstanding (1,227 as of 30 June 2020).

During December 2021, the Company settled various intercompany transactions through the issuance of equity. A total of 5,210,772 ordinary shares were issued at a par value of £1 each.

15. Reserves

Share premium – includes any premiums received on issue of share capital. Any transactional costs associated with the issue of shares are deducted from share premium.

Retained earnings – includes all current and prior period retained profit and losses.

16. Ultimate parent company and controlling party

The immediate and ultimate parent company and controlling party is AVITA Medical, Inc. which is registered and quoted on the Australian Securities Exchange and the NASDAQ Stock Market LLC. Our website address is www.avitamedical.com. We make our periodic reports, together with any amendments, available on our website, free of charge, as soon as reasonably practicable after we electronically file or furnish the reports with the Securities and Exchange Commission, or SEC or with the Australian Securities Exchange, or ASX. The SEC maintains an internet site, www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of announcements made by the Company to the ASX are available on ASX's website (www.asx.com.au).