

AVITA MEDICAL EUROPE LIMITED

Company Number 4661707

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2019



Avita Medical Europe Limited
Financial Statements
Year Ended 30 June 2019

Contents

	Page
Company Information	3
Directors Report	4 – 6
Auditor's Report	7
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12 – 21

Avita Medical Europe Limited
Financial Statements
Year Ended 30 June 2019

Company Information

Directors

Dr Michael Perry
Mr Timothy Rooney

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 year ended 30 June 2019.

Results and Dividend

The net loss after tax for the year amounted to £448,694 (2018: £952,770). The directors cannot recommend the payment of any dividends.

Principle Activity

The principal activity of the company was that of commercialisation of the company's tissue engineering technologies and provision of research services to the group.

Review of Business

The Company is a wholly owned subsidiary of Avita Medical Limited ("Avita" or "the parent company"), a Holding Company registered and quoted on the Australian Stock Exchange. Since October 1, 2019 the parent company's American Depositary Share securities have traded on the NASDAQ Capital Market. Avita Medical Limited is a regenerative medicine company with a technology platform designed to address unmet medical needs in patients with burns, chronic wounds, and aesthetics indications. Avita's patented and proprietary collection and application technology provides innovative treatment solutions derived from the regenerative properties of a patient's own skin. The Company's lead product, RECELL® System, uses a small amount of a patient's own skin to prepare Spray-On Skin Cells at the point of care in as little as 30 minutes. This autologous suspension of skin cells is then sprayed onto the areas of the patient requiring treatment. The RECELL System is patented and CE-marked for Europe, TGA-registered in Australia, CFDA-cleared in China. The RECELL System, was approved for sale in the U.S. for the treatment of acute thermal burns in patients 18 years and older by the U.S. Food and Drug Administration (FDA) in September 2018. During the year ended June 30, 2019, the RECELL System was also sold on a limited basis in certain regions of the world in which the products were approved for sale, including Australia, China and Europe.

Sales of the RECELL System decreased 28% to £203,803 in the year ended June 2019 (2018: £281,293) and Cost of sales decreased 31% to £78,342 (2018: £113,083) as the Company conducted only limited commercial efforts and primarily focused on filling orders from existing customers. Administrative, sales and marketing expenses decreased 52% to £574,455 (2018: £1,195,781). The loss after taxation for the year was £448,694 (2018: £952,770) decrease of £504,076 (53%) from the prior year.

Principle 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 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

Mr Timothy Rooney

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.

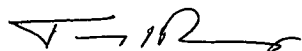
AVITA MEDICAL EUROPE LIMITED
DIRECTORS' REPORT

Auditors

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

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

A handwritten signature in black ink, appearing to read 'T. Rooney', with a stylized flourish at the end.

Mr Timothy Rooney
Director

Date: 10 February 2020

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.

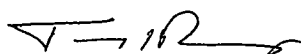
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including 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.



Mr Timothy Rooney
Chief Administrative Officer

**Independent auditor's report to the members of Avita Medical Europe Limited
(Company No: 4661707)**

Opinion

We have audited the financial statements of Avita Medical Europe Limited (the 'company') for the year ended 30 June 2019 which comprise the statement of comprehensive income, the statement of financial position, 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 30 June 2019 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.

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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

**Independent auditor's report to the members of Avita Medical Europe Limited
(Company No: 4661707)**

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
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to 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 set out on page 6, 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.

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.

A handwritten signature in black ink, appearing to read 'Grant Thornton UK LLP'.

Paul Brown

For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge, United Kingdom

Date: 14 February 2020

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

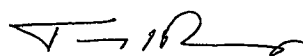
	Notes	2019 £	2018 £
Turnover	4	203,803	281,293
Cost of sales		(78,342)	(113,083)
Gross profit		125,461	168,210
Other operating income		39	74,550
Administrative, sales and marketing expenses	6	(574,455)	(1,195,781)
Operating loss	5	(448,955)	(953,021)
Interest income and similar income		261	251
Loss on ordinary activities before taxation		(448,694)	(952,770)
Tax on loss on ordinary activities	8	-	-
Loss on ordinary activities after taxation		(448,694)	(952,770)
Loss for the period attributable to owners of the parent		(448,694)	(952,770)
Total Comprehensive Loss for the year – due to the parent		(448,694)	(952,770)

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

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	2019 £	2018 £
Non-current assets			
Tangible fixed assets	9	3,247	10,224
Total non-current assets		3,247	10,224
Current assets			
Stocks	10	5,967	49,182
Debtors	11	33,773	68,705
Cash at bank and in hand		129,083	207,648
Total current assets		168,823	325,535
Creditors: Amounts falling due within one year	12	(119,501)	(103,374)
Net current assets		49,322	222,161
Total assets less current liabilities		52,569	232,385
Creditors: Amounts falling due after more than one year	13	(5,235,079)	(4,966,201)
Net Liabilities		(5,182,510)	(4,733,816)
Capital and Reserves			
Called up share capital	15	1,227	1,227
Share premium		19,714,812	19,714,812
Profit and loss account		(24,898,549)	(24,449,855)
Shareholders' deficit		(5,182,510)	(4,733,816)

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:



Mr Timothy Rooney
Director

Date: 10 February 2020

Company Number: 4661707

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 July 2018	1,227	19,714,812	(24,449,855)	(4,733,816)
Loss for the period	-	-	(448,694)	(448,694)
Total comprehensive loss for the year	-	-	(448,694)	(448,694)
At 30 June 2019	1,227	19,714,812	(24,898,549)	(5,182,510)

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 July 2017	1,227	19,714,812	(23,497,085)	(3,781,046)
Loss for the period	-	-	(952,770)	(952,770)
Total comprehensive loss for the year	-	-	(952,770)	(952,770)
At 30 June 2018	1,227	19,714,812	(24,449,855)	(4,733,816)

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 2019**

1. Corporate Information

The Company is 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.

(b) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of shipment of the goods to the customer.

Interest income

Revenue is recognised 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, copies of which are published and available to the public.

(d) Related party transactions

The company is a wholly owned subsidiary of Avita Medical Limited, a Holding Company registered and quoted on the Australian Stock Exchange. Since 1 October 2019 the parent company's American Depositary Share securities have traded on the NASDAQ Capital Market. 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 recognised as an expense in profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(f) Debtors

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

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of Significant Accounting Policies (continued)

(g) Stocks

Inventories are valued at the lower of cost and net realisable 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. Assembly costs as invoiced by a third party are factored into the cost of finished goods.

Net realisable 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, including any bank loans, 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. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. Non-monetary assets are recorded at the exchange rates ruling at the time the assets were acquired.

All translation differences are taken to the profit and loss account.

(j) Tangible Fixed Assets

The Company's fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation are 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:

Laboratory equipment – 5 years
Computer equipment – 5 years
Fixtures and fittings – 7 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 fair value, which is the expected undiscounted cash flows over the remaining useful life, 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 recognised 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.

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of Significant Accounting Policies (continued)

(k) Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised 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 recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- 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 recognised 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, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

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 amortised 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 amortised cost.

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

2. Summary of Significant Accounting Policies (continued)

(m) Financial instruments (continued)

Financial assets that are measured at cost and amortised 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 recognised 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 best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the statement of financial position date.

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 recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(n) Research and development costs

Expenditure during the research phase of a project is charged to the profit and loss account 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 realisation of assets and settlement of liabilities in the ordinary course of business. As at 30 June 2019 the company has net liabilities of £5,182,510 and made a net loss after tax of £448,694.

For future cash flow requirements, the company remains dependent upon the parent company Avita Medical Limited. The company has received confirmation from our 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.

As announced on ASX during the year ended 30 June 2019 and thereafter, the Group completed a series of equity transactions. The Group issued 65,000,000 shares at a price of A\$0.050 per share and received gross proceeds of A\$3,250,000 on 26 July 2018. The Group completed the first tranche of an institutional placement in which it issued 310,047,015 fully paid ordinary shares at a price of A\$0.080 per share raising gross proceeds of A\$24,803,761 on 4 December 2018. The institutional placement included a second tranche in which it issued 189,952,985 shares at a price of A\$0.080 per share and received gross proceeds of A\$15,196,239. In addition, on 11 January 2019 the Group completed a Share Purchase Plan under which it issued 22,061,250 shares of stock at a price of \$0.080 per share and received gross proceeds of A\$1,764,900. Further, on 13 November 2019 the Group issued 203,389,831 shares at a price of A\$0.059 per share and received gross proceeds of A\$120,000,000.

The Group benefits from cash inflows from the series of the U.S. Biomedical Advanced Research and Development Authority (BARDA) contracts, the first of which was awarded to the Group in September 2015. These payments from BARDA offset costs from various activities undertaken to support the FDA regulatory approval process for RECELL in the U.S., preparation for the planned commercial launch of RECELL in the U.S., and RECELL clinical programs in the U.S. With the U.S. FDA approval of RECELL for the treatment of burns in September 2018, and the U.S. market launch of the product in January 2019, sales of goods are expected to be an increasing source of revenue in the future. Another anticipated source of revenue for the parent company is the BARDA contract line item covering the initial purchase, delivery and storage of the RECELL System in the amount of US\$7,594,620 (approximately A\$10,300,000).

**AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

2. Summary of Significant Accounting Policies (continued)

(o) Going concern (continued)

The Group expects to be utilizing cash reserves until U.S. and international sales of its products reach the level to fund ongoing operations.

As a result of the above, the directors are satisfied that there is sufficient working capital to support the committed research and development programs and other activities over the next 12 months and the Group has the ability to realize its assets and pay its liabilities and commitments in the normal course of business. Accordingly, the directors have prepared the financial report on a going concern basis.

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 ageing profile of debtors and historical experience. See Note 11 for the net carrying amount of the debtors and associated impairment provision.

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2019

4. 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.

	2019 £	2018 £
United Kingdom	82,820	119,579
Europe	101,521	146,648
Rest of the world	19,462	15,066
	203,803	281,293

An analysis of turnover by category is given below.

	2019 £	2018 £
Sales of products	203,803	281,293

5. Operating loss

This is stated after charging / (crediting):

	2019 £	2018 £
Depreciation of fixed assets	3,536	4,593
Loss on disposal of tangible fixed assets	3,441	-
Auditor's remuneration – audit services	20,000	23,100
Auditor's remuneration – non-audit services	4,050	3,250
Net gain on foreign currency translation	(52,428)	(224,878)
Operating lease rentals – land and buildings	152	12,964

During the year the company received £nil (2018: £74,550) for the provision of research and development services for the group.

6. Administrative, sales and marketing expenses

This is stated after charging / (crediting):

	2019 £	2018 £
Administrative	173,923	244,117
Sales and marketing expenses	400,532	951,664
	574,455	1,195,781

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2019

7. Staff costs

	2019 £	2018 £
Wages and salaries	254,883	553,095
Social security costs	28,146	56,310
Other pension costs	18,598	35,841
	301,627	645,246

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

	2019 No.	2018 No.
Administration, Clinical and Finance	nil	2
Sales and Marketing	3	3
	3	5

No directors are remunerated through Avita Medical Europe Limited. Personnel compensation in relation to key management for the year amounted to £nil (2018: £371,999).

8. Taxation on loss on ordinary activities

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

	2019 £	2018 £
UK Corporation Tax	-	-
Adjustment in respect of prior periods	-	-
Tax on loss on ordinary activities	-	-

The tax assessed for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained as follows:

Loss on ordinary activities before tax	(448,694)	(952,770)
	2019 £	2018 £
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK at 19% (2018: 19%)	(85,252)	(181,026)
Expenses not deductible for tax purposes	-	518
Fixed asset differences	560	221
Adjust deferred tax to average rate of 19%	8,915	-
Losses carried forward	75,777	180,287
Tax on loss on ordinary activities	-	-

Factors that may affect future tax charges:

The main rate of corporation tax will reduce to 17% from 19% with effect from 1 April 2020.

A net deferred tax asset of £4,035k (2018: £3,959k) has not been recognised in respect of 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 (continued)
FOR THE YEAR ENDED 30 JUNE 2019

9. Tangible fixed assets

	Computer equipment	Laboratory equipment	Fixtures and fittings	Total assets
	£	£	£	£
Cost				
At 1 July 2018	44,917	19,513	4,429	68,859
Disposals	(38,421)	(19,513)	(3,532)	(61,466)
At 30 June 2019	6,496	-	897	7,393
Accumulated Depreciation				
At 1 July 2018	37,362	18,910	2,363	58,635
Charge for the year	2,425	603	508	3,536
Disposals for the year	(36,250)	(19,513)	(2,262)	(58,025)
At 30 June 2019	3,537	-	609	4,146
Net book values				
At 30 June 2019	2,959	-	288	3,247
At 30 June 2018	7,555	603	2,066	10,224

10. Stocks

	2019 £	2018 £
Finished goods at cost	5,967	49,182

Stocks recognised in cost of sales during the year as an expense was £78,342 (2018: £113,083). An impairment loss reversed of £513 (2018: £7,862 recognised) against stock.

11. Debtors

	2019 £	2018 £
Trade debtors	15,586	46,022
Other debtors	500	7,155
Prepayments and accrued income	6,793	7,761
VAT and other tax refunds	10,894	7,766
	33,773	68,704

An impairment loss of £13,933 (2018: £13,164) has been recognised against trade debtors.

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2019

12. Creditors: amounts falling due within one year

	2019 £	2018 £
Trade creditors	5,658	296
Other creditors	320	-
Accruals and deferred income	103,857	83,949
Social security and other taxes	8,122	16,014
Pension creditor	1,544	3,116
	<u>119,501</u>	<u>103,375</u>

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

	2019 £	2018 £
Amounts owed to group undertakings	<u>5,235,079</u>	<u>4,966,201</u>

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. Financial instruments

	2019 £	2018 £
Financial assets		
Financial assets that are debt instruments measured at amortised costs	<u>145,169</u>	<u>260,825</u>

	2019 £	2018 £
Financial liabilities		
Financial liabilities measured at amortised costs	<u>(5,344,914)</u>	<u>(5,050,446)</u>

Financial assets measured at amortised costs comprise of cash, trade debtors, other debtors and amounts due from other group undertakings.

Financial liabilities measured at amortised costs comprise of trade creditors, other creditors, accruals and amounts due to other group undertakings.

AVITA MEDICAL EUROPE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2019

15. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
1,227 (2018: 1,277) Ordinary shares of £1 each	1,227	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.

16. 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.

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: c/o Mertons Corporate Services Pty Ltd, Level 7, 330 Collins Street, Melbourne VIC 3000, Australia.