AVITA MEDICAL EUROPE LIMITED

Company Number 4661707

REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2017

Avita Medical Europe Limited
Financial Statements
Year Ended 30 June 2017

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Avita Medical Europe Limited
Financial Statements
Year Ended 30 June 2017

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 2017.

Results and Dividend

The net loss after tax for the year amounted to £1,836,000 (2016: £1,853,398). 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, a Holding Company registered and quoted on the Australian Stock Exchange. Avita Medical Limited ("Avita" or "the parent company") 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 a patient's own skin. The Company's lead product, ReCell®, is used in the treatment of a wide variety of burns, plastic, reconstructive and cosmetic procedures. ReCell® is patented, CE-marked for Europe, TGA-registered in Australia and CFDA-cleared in China. The Company continued to focus on key markets in Europe, Middle East and Africa where ReCell® is approved for sale.

Sales of ReCell have fallen 4.4% to £266,469 in the year ended June 2017 (2016: £278,770) and Cost of Sales rose 43.0% to £134,085 (2016: £93,765) as direct sales gave way to new distributorships in the UK, Germany and South Africa on lower margins. Administrative expenses decreased 23.9% to £948,961 (2016: £1,246,884) and Sales and Marketing expenses increased 12.6% to £1,228,170 (2016: £1,090,345). The loss after taxation for the year was £1,836,000 (2016: £1,853,398) decrease of £17,398 (0.9%) 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 achieving sales penetration in key markets in line with the company's cash resources.

Directors

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

Dr Michael Perry (appointed 24 July 2017)

Mr Timothy Rooney

Mr Adam Kelliher (resigned 1 June 2017)

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

Provision of information to auditor

Each of the persons, who are directors at the same time when the Directors' report is approved, has confirmed that:

- So far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- That director has taken all the steps that ought to have been taken, as a director, in order to be aware of any information needed by the company's auditor in connection with preparing its report and to establish that the company's 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.

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

Mr Timothy Rooney
Director

Date: 29 March 2018

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

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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 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 are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2017 which comprise the statement of comprehensive income, the balance sheet, 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 2017 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.

Who we are reporting to

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.

Material uncertainty related to going concern

We draw attention to note 2. (q) Going concern in the financial statements, which indicates that the company incurred a net loss of £1,836,000 during the year ended 30 June 2017 and, as of that date, the company's liabilities exceeded its total assets by £3,781,046. As stated in note 2. (q), the company is dependent on the financial support from its parent company. These events or conditions, along with the other matters as set forth in note 2. (q), indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

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

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 strategic report or 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.

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.

Grant Thornton UK LLP

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

Date: 29 March 2018

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017	2016
		£	£
Turnover	4	**266,469**	278,770
Cost of sales		**(134,085)**	(93,765)
Gross profit		**132,384**	185,005
Other operating income	5	**208,037**	298,589
Administrative, sales and marketing expenses	6	**(2,177,131)**	(2,337,229)
Operating loss	5	**(1,836,710)**	(1,853,635)
Interest income and similar income		**710**	245
Interest expense and similar charges		**-**	(8)
Loss on ordinary activities before taxation		**(1,836,000)**	(1,853,398)
Tax on loss on ordinary activities	8	**-**	-
Loss on ordinary activities after taxation		**(1,836,000)**	(1,853,398)
Other Comprehensive Income		**-**	-
Total Comprehensive Loss for the year - due to the parent		**(1,836,000)**	(1,853,398)

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

AVITA MEDICAL EUROPE LIMITED
BALANCE SHEET
AS AT 30 JUNE 2017

	Notes	2017 £	2016 £
Fixed Assets			
Intangible assets	9	-	1,011
Tangible assets	10	**12,046**	13,273
Total Non-Current Assets		**12,046**	14,284
Current Assets			
Stocks	11	**41,282**	28,009
Debtors	12	**147,767**	184,300
Cash at bank and in hand		**512,903**	689,096
Total Current Assets		**701,952**	901,404
Creditors: Amounts falling due within one year	13	**(281,061)**	(345,810)
Net current assets		**420,891**	555,595
Total assets less current liabilities		**432,937**	569,880
Creditors: Amounts falling due after more than one year	14	**(4,213,983)**	(2,514,926)
Net Liabilities		**(3,781,046)**	(1,945,046)
Capital and Reserves			
Called up share capital	16	**1,227**	1,227
Share premium		**19,714,812**	19,714,812
Profit and loss account		**(23,497,085)**	(21,661,085)
Shareholder's deficit		**(3,781,046)**	(1,945,046)

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: 29 March 2018

Company Number:4661707

AVITA MEDICAL EUROPE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 July 2016	**1,227**	**19,714,812**	**(21,661,085)**	**(1,945,046)**
Loss for the period	-	-	(1,836,000)	(1,836,000)
Total comprehensive loss for the year	**-**	**-**	**(1,836,000)**	**(1,836,000)**
At 30 June 2017	**1,227**	**19,714,812**	**(23,497,085)**	**(3,781,046)**

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 1 July 2015	**1,227**	**19,714,812**	**(19,807,687)**	**(91,648)**
Loss for the period	-	-	(1,853,398)	(1,853,398)
Total comprehensive loss for the year	**-**	**-**	**(1,853,398)**	**(1,853,398)**
At 30 June 2016	**1,227**	**19,714,812**	**(21,661,085)**	**(1,945,046)**

1. Corporate Information

The company is a 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.

(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. 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.

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 balance sheet 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

All fixed assets stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a double declining basis over the estimated useful life of the specific assets as follows:

Leasehold improvements – double declining basis over the duration of the lease
Laboratory equipment – 20% per annum, double declining
Computer equipment – 20% per annum, double declining
Computer software – 33.33% per annum, double declining
Fixtures and fittings – 20% per annum, double declining

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(k) Intangible Fixed Assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is charged to allocate the cost of intangibles less residual values over their estimated useful lives, as follows:

Computer software – 33.33% per annum, double declining

2. Summary of Significant Accounting Policies (continued)

(l) 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 balance sheet 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 Balance Sheet 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 balance sheet date. Deferred tax balances are not discounted.

(m) 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.

(n) 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.

2. Summary of Significant Accounting Policies (continued)

(n) 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 balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet 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.

(o) Share-based payment transactions

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.

(p) Research and development costs

Expenditure during the research phase of a project is charged to the profit and loss account as incurred.

2. Summary of Significant Accounting Policies (continued)

(q) 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 2017 the company has net liabilities of £3,781,046 and made a net loss after tax of £1,836,000.

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. The ability of Avita Medical Limited to provide this on-going support depends on the group successfully completing a further funding round.

As announced on ASX on 11 October 2017, Avita Medical Limited is raising A$16.9m in new capital, comprised of a placement of A$4.5m and a fully underwritten Rights Issue (Entitlement Offer) of A$12.4m. Avita Medical Limited completed the private placement portion of its capital raise and received net proceeds of A$4.28m on 16 October 2017. The Entitlement Offer closed on 2 November 2017 contributing a further A$12.4m.

The Group is a development stage biotechnology company and as such expects to be utilizing cash reserves until its research and development activities are globally commercialized. The Group has historically funded its research and development activities through raising capital by issuing securities in the parent, it is expected that similar funding will be obtained to provide working capital as and when required. If the parent is unable to raise capital in the future, the Group may need to curtail expenditure by scaling back certain research and development programs.

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.

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.

	2017	2016
	£	£
United Kingdom	**105,180**	127,646
Mainland Europe	**135,616**	127,924
Middle East	**5,110**	23,200
South Africa	**20,563**	-
	266,469	278,770

5. Operating loss

This is stated after charging / (crediting):

	2017	2016
	£	£
Amortisation and depreciation of owned fixed assets	**11,051**	27,150
Auditor's remuneration – audit services	**25,223**	14,600
Auditor's remuneration – non-audit services	**Nil**	3,000
Net loss on foreign currency translation	**162,022**	285,659
Operating lease rentals – land and buildings	**24,846**	52,559

During the year the company received £208,037 (2016: £298,589) for the provision of research and development services for the group.

6. Administrative, sales and marketing expenses

	2017	2016
	£	£
Administrative	**948,961**	1,246,884
Sales and Marketing	**1,228,170**	1,090,345
	2,177,131	2,337,229

7. Staff costs

	2017	2016
	£	£
Wages and salaries	**767,614**	646,061
Social security costs	**101,953**	84,574
Other pension costs	**64,502**	60,501
	934,069	791,136

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

	2017	2016
	No.	No.
Administration and Finance	**2**	4
Sales and Marketing	**5**	6
	7	10

No directors are remunerated through Avita Medical Europe Limited. Personnel compensation in relation to key management for the year amounted to £383,978 (2016: £251,715).

8. Taxation on loss on ordinary activities

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

	2017	2016
	£	£
UK Corporation Tax	-	-
Adjustment in respect of prior periods	-	-
Tax on loss on ordinary activities	-	-

The tax assessed for the year is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.75% (2016: 20%). The differences are explained as follows:

Loss on ordinary activities before tax	**(1,836,000)**	(1,853,398)

	2017	2016
	£	£
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK at 19.75% (2016: 20%)	**(362,623)**	(370,680)
Expenses not deductable for tax purposes	**2,309**	9,415
Fixed asset differences	**200**	-
Losses carried forward	**360,114**	361,265
Tax on loss on ordinary activities	-	-

A net deferred tax asset of £3,797k (2016: £3,640k) 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.

9. Intangible fixed assets

	Computer software £	*Total* £
Cost		
At 1 July 2016	**16,870**	16,870
Additions	-	-
Disposals	-	-
At 30 June 2017	**16,870**	**16,870**
Depreciation		
At 1 July 2016	**15,858**	15,858
Charge for the year	**1,012**	1,012
At 30 June 2017	**16,870**	**16,870**
Net book value at June 30, 2017	**-**	**-**
Net book value at June 30, 2016	**1,012**	**1,012**

10. Tangible fixed assets

	Computer equipment	**Laboratory equipment**	**Fixtures and fittings**	**Total assets**
Cost	**£**	**£**	**£**	**£**
At 1 July 2016	34,750	19,513	4,429	58,692
Additions	8,813	-	-	8,813
At 30 June 2017	**43,563**	**19,513**	**4,429**	**67,505**
Depreciation				
At 1 July 2016	29,535	12,923	2,962	45,420
Charge for the year	6,984	2,636	419	10,039
At 30 June 2017	**36,519**	**15,558**	**3,381**	**55,459**
Net book values				
At 30 June 2017	**7,044**	**3,955**	**1,047**	**12,046**
At 30 June 2016	5,216	6,590	1,467	13,273

11. Stocks

	2017 **£**	2016 £
Finished goods at cost	**41,282**	28,009

Stocks recognised in cost of sales during the year as an expense was £134,085 (2016: £87,770). An impairment loss of £6,862 (2016: £982) was recognised against stock.

12. Debtors

	2017 £	2016 £
Trade debtors	**67,093**	80,778
Other debtors	**14,184**	28,970
Prepayments and accrued income	**48,748**	47,196
VAT and other tax refunds	**17,742**	27,356
	147,767	184,300

An impairment loss of £52,536 (2016: £nil) has been recognised against trade debtors

13. Creditors: amounts falling due within one year

	2017 £	2016 £
Trade creditors	**96,807**	120,974
Other creditors	**9,342**	22,292
Accruals and deferred income	**63,990**	152,143
Social security and other taxes	**104,569**	40,091
Pension creditor	**6,353**	10,310
	281,061	345,810

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

	2017 £	2016 £
Amounts owed to group undertakings	**4,213,983**	2,514,926

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.

15. Financial instruments

	2017	2016
	£	£
Financial assets		
Financial assets that are debt instruments measured at amortised costs	**594,180**	798,844

	2017	2016
	£	£
Financial liabilities		
Financial liabilities measured at amortised costs	**(4,384,122)**	(2,810,335)

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.

16. Share capital

	2017	2016
	£	£
Allotted, called up and fully paid		
1,227 (2016: 1,277) Ordinary shares of £1 each	**1,227**	1,227

17. Reserves

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

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.

Profit and loss – includes all current and prior period retained profit and losses.

18. 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 (No) and weighted average exercise price (WAEP) of, and movements in, share options issued during the year:

	2017 *No*	*2017* *WAEP*
Outstanding at the beginning of the year		
Former CEO	40,000,000	Nil
Employees	600,000	0.16
Lapsed during the year	(600,000)	(0.16)
Granted during the year	-	-
Outstanding at the end of the year	**40,000,000**	Nil

The options granted in the ultimate parent company relate to services performed for the parent company, and not in respect of the individuals' role as an employee or officer of Avita Medical Europe Limited. Accordingly, there is no share based payment charge for the year (2016: £nil).

19. Operating lease commitments

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

	2017 **£**	2016 £
Within one year	**20,500**	26,784
Within 1 to 2 years	**38,500**	23,000
2-5 years	-	41,000
	59,000	90,784

The operating lease commitments for 2017 are for the London office ending on 16 March 2020. 2016 includes rent payable for the Melbourne office for the period ending on 20 August 2016.

20. 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.