



APPENDIX 4D

AND

30 JUNE 2019 HALF YEAR REPORT

Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Appendix 4D
Half-year report

1. Company details

Name of entity:	Avecho Biotechnology Limited
ABN:	32 056 482 403
Reporting period:	For the period ended 30 June 2019
Previous period:	For the period ended 30 June 2018

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	409.4% to	4,176,196
Profit from ordinary activities after tax attributable to the owners of Avecho Biotechnology Limited	up	225.0% to	2,305,152
Profit for the period attributable to the owners of Avecho Biotechnology Limited	up	225.0% to	2,305,152

Explanation of profit from ordinary activities after tax

Total revenue was increased by 409% for the period to \$4,176,196 (2018: \$819,892), largely due to the one-time licence fee from Ashland for the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products.

Other income was decreased by 68% to \$285,013 (2018: \$886,324), primarily nil (2018: \$566,830) from termination and completion fees received from Terumo Corporation relating to TPM®/Oxymorphone and TPM®/Ropivacaine projects, and decrease in the R&D tax incentive credit to \$197,513 (2018: \$319,494) reflecting lower spend on R&D for the year.

Expenses from continuing operations were considerably lower at \$1,982,808 (2018: \$3,206,026), consists of:

- lower legal fee \$26,777 due to the arbitration settlement in prior year (2018: \$133,947);
- lower employment costs \$650,098 due to significant reduction in employee numbers (2018: \$1,438,224); and
- lower spend on R&D of \$122,069 (2018: \$262,050).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.32	0.17

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit status

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half Year Report.

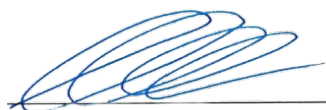
11. Attachments

Details of attachments (if any):

The 2019 half year report of Avecho Biotechnology Limited is attached.

12. Signed

Signed



Dr Greg Collier
Chairman

Date: 29 August 2019

Avecho Biotechnology Limited

(Formerly known as Phosphagenics Limited)

ABN 32 056 482 403

Half Year Report - 30 June 2019

Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
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Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Corporate directory
30 June 2019

Directors	Dr Greg Collier (Executive Chairman) Dr Ross Murdoch (Non-Executive Director) Mr David Segal (Non-Executive Director)
Company Secretary	Ms Melanie Leydin
Registered office	Unit A8, 2A Westall Road Clayton VIC 3168 Australia
Principal place of business	Unit A8, 2A Westall Road Clayton VIC 3168 Australia Telephone: +61 3 9002 5000
Share register	Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 Australia Telephone: +61 3 9415 5000 Fax: +61 3 9473 2500
Auditor	Grant Thornton Audit Pty Ltd Collins Square Tower 5 727 Collins Street Melbourne VIC 3008
Stock exchange listing	Avecho Biotechnology Limited securities are listed on the Australian Securities Exchange. (ASX code: AVE)
Website	www.avecho.com.au

Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Directors' report
30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Avecho Biotechnology Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 30 June 2019.

Directors

The following persons were directors of Avecho Biotechnology Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Dr Greg Collier (Executive Chairman) (becoming Executive Chairman on 30 April 2019)
Dr Ross Murdoch (Non-Executive Director) (resigned as CEO and Managing Director, and becoming Non-Executive Director on 30 April 2019)
Mr David Segal (Non-Executive Director)

Company secretaries

Melanie Leydin (appointed 28 December 2018).

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

Mr Michael Sapountzis (appointed 28 December 2018, resigned 19 July 2019)

Mr Sapountzis is a governance professional with extensive experience in providing executive support and managing the regulatory requirements for a variety of ASX listed companies. He holds degrees in Law and Commerce and a Graduate Diploma or Applied Corporate Governance.

Principal activities

The principal activities of the consolidated entity are the development, production, sale and licensing of products incorporating its patented platform technology TPM, for the pharmaceutical, skin care and animal health and nutrition industries.

Review of operations

Avecho's core business strategy is to develop and commercialise its TPM® technology. Each of the business divisions, Human Health, Animal Health and Nutrition, and Production, have progressed with the common goal of advancing commercialisation of the Company's TPM® technology.

Human Health

The final arbitration resolution cleared the way for management to return their focus to the operating activities of the business and advancing the commercialisation of TPM products. Avecho regained rights to develop TPM®/daptomycin and combined with the focused formulation development work, has resulted in Avecho now having a number of commercially attractive TPM® formulations in different stages of active development in its portfolio.

In addition, following arbitration settlement Strides were granted:

- first right of refusal to "all Avecho human TPM® assets existing and not otherwise encumbered" at signing of the agreement, the terms of which will be negotiated in good faith at a later time; and
- a discount on the upfront, milestone and/or royalty payments associated with any/all deals which Strides completed with Avecho to a total accumulated value of the lesser of £5 million; or the costs claimed and submitted to SIAC as part of the SIAC Arbitration No. 001 of 2016 and SIAC Arbitration No. 002 of 2016.

Discussions around suitable assets for joint development are well underway and should be completed soon. We believe Strides has the entrepreneurial capability and finances to accelerate development of any selected project or project(s).

Other human therapeutics initiatives include our partnership with Terumo which recently focussed on the TPM®-enhanced propofol injectable formulation, with formal toxicology studies recently completed and awaiting final report. In addition, our pre-IND meeting in December with the US Food and Drug Administration (FDA) obtained regulatory guidance and agreement on the preclinical, CMC and regulatory information to be included in an IND for Avecho's three-day TPM®/oxymorphone patch. The FDA meeting marked a crucial point in the development of the TPM®/oxymorphone patch, helping us understand potential FDA concerns around a transdermal oxymorphone patch. We have initiated a new business development effort with this opportunity following FDA guidance.

Animal Health portfolio

The Animal Health business has a number of commercial partners evaluating the utility of TPM as a feed additive. They are undertaking performance studies in their own facilities as well as conducting new studies to assess TPM's utility in various challenged environments. These studies have taken some time and we continue to be in discussions with interested parties.

In parallel, we have progressed our European Food Safety Authority (EFSA) application for TPM to be utilised as a feed additive in the EU to the final stages, recently being advised the EU Reference Lab has accepted our validated analytical methods (analytical methods for detected TPM in animal eds and premixed), so we have ticked another important box that is part of the approval process.

Production portfolio

We recently announced that Ashland Global Holdings Inc. (NYSE: ASH), signed an agreement to acquire the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products for a one-time licence fee of US\$2.5M (approximately A\$3.5 million).

Under the agreement, Ashland became the exclusive developer, manufacturer and seller of Vital ET® and TPM® for use in the global personal care products market. Ashland acquired all Avecho's interests in the Vital ET®, under the agreement.

This provided Avecho an injection of non-dilutive capital and strengthening of our cash position. Based on historical revenues received from our partnership with Ashland, this payment locked in revenue that we may have expected to accrue over a four-plus year period, and based on our current cash burn of approximately A\$1.5 million per year, and the associated reduction in manufacturing costs, this is a meaningful extension to our cash runway.

Importantly, Avecho retained the rights to manufacture TPM® for human and animal health applications and has also granted Ashland a right of first refusal in relation to the relevant manufacturing patents, which allows Ashland to submit a matching offer in the event Avecho receives an offer from a third party to acquire the patents.

The one-time payment to Avecho is consistent with the company's stated strategy to move its focus to its core of human health business, while monetising non-core business units. Avecho retains the intellectual property and rights to manufacture TPM® for use outside of the personal care space including in the human and animal health markets.

Review of financial results

The profit for the consolidated entity after providing for income tax amounted to \$2,305,152 (30 June 2018: loss of \$1,844,097).

Total revenue from continuing operations for the 6 months ended 30 June 2019 was \$4,176,196 (2018: \$819,892), with significantly increased royalties and licence fees of \$3,595,706 (2018: \$136,558). This was due to \$3,571,429 (USD\$2,500,000) licence fee received from Ashland for the global exclusive manufacturing rights for Vital ET® and TPM® for use in personal care products.

Other income decreased by 68% to \$285,013 (2018: \$886,324), primarily from nil (2018: \$566,830) termination and completion fees received from Terumo Corporation relating to TPM®/Oxymorphone and TPM®/Ropivacaine projects, and a decrease in the R&D tax incentive credit to \$197,513 (2018: \$319,494) reflecting lower spend on R&D for the half year.

Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Directors' report
30 June 2019

Expenses from continuing operations were considerably lower at \$1,982,808 (2018: \$3,206,026), consists of:

- lower legal fees \$26,777 due to the arbitration settlement in the prior year (2018: \$133,947);
- lower employment costs \$650,098 due to significant reduction in employee numbers (2018: \$1,438,224); and
- lower spend on R&D of \$122,069 (2018: \$262,050)

As at 30 June 2019, the consolidated entity held \$4,689,777 in cash and cash equivalents (31 December 2018: \$2,111,171). The net assets of the consolidated entity increased by \$2,308,236 to \$6,208,042 as at 30 June 2019 (31 December 2018: \$3,899,806). Working capital, being current assets less current liabilities, was \$4,960,823 (31 December 2018: \$2,374,763).

The net operating cash inflow for the period was \$2,607,310 (2018: outflow \$1,016,144). This is mainly due to \$3,571,429 increase in licence fee from Ashland, offset by \$1,252,095 decrease in R&D tax incentive receipts.

Significant changes in the state of affairs

On 24 May 2019, the Company changed its name from Phosphagenics Limited (ASX: POH) to Avecho Biotechnology Limited (ASX: AVE), effectively from 27 May 2019.

On 20 June 2019, the company's distribution partner ISP Investments LLC, a subsidiary of Ashland Global Holdings Inc. (NYSE:ASH) (Ashland), signed an agreement to acquire the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products for a one-time licence fee of US\$2.5M (approximately A\$3.5 million).

There were no other significant changes in the state of affairs of the consolidated entity during the financial period.

Matters subsequent to the end of the financial period

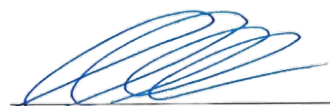
No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Dr Greg Collier
Chairman

29 August 2019

Auditor's Independence Declaration

To the Directors of Avecho Biotechnology Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Avecho Biotechnology Limited for the half year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 29 August 2019

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Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Consolidated statement of profit or loss and other comprehensive income
For the period ended 30 June 2019

		Consolidated	
	Note	30 June 2019	30 June 2018
		\$	\$
Revenue from contracts with customers	5	4,176,196	819,892
Cost of sales		(180,842)	(369,313)
Gross profit		<u>3,995,354</u>	<u>450,579</u>
Interest revenue calculated using the effective interest method		7,593	25,026
Other income		<u>285,013</u>	<u>886,324</u>
		<u>292,606</u>	<u>911,350</u>
Employee and directors benefits expenses	6	(650,098)	(1,438,224)
Legal expenses		(26,777)	(133,947)
Research expenses		(122,069)	(262,050)
Consultancy and professional fees		(295,518)	(360,524)
Amortisation and depreciation		(345,580)	(348,294)
Impairment losses		-	(157,000)
Other expenses	7	(539,741)	(505,987)
Finance costs		<u>(3,025)</u>	<u>-</u>
Profit/(loss) before income tax expense		2,305,152	(1,844,097)
Income tax expense		<u>-</u>	<u>-</u>
Profit/(loss) after income tax expense for the period attributable to the owners of Avecho Biotechnology Limited		2,305,152	(1,844,097)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>13</u>	<u>2,134</u>
Other comprehensive income for the period, net of tax		<u>13</u>	<u>2,134</u>
Total comprehensive income for the period attributable to the owners of Avecho Biotechnology Limited		<u>2,305,165</u>	<u>(1,841,963)</u>
		Cents	Cents
Basic earnings per share		0.15	(0.12)
Diluted earnings per share		0.15	(0.12)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Consolidated statement of financial position
As at 30 June 2019

		Consolidated	31 December
	Note	30 June 2019	2018
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		4,689,777	2,111,171
Trade and other receivables		612,583	677,031
Inventories		90,845	99,849
Right-of-use assets		46,978	-
Other current assets		203,608	359,214
Total current assets		<u>5,643,791</u>	<u>3,247,265</u>
Non-current assets			
Plant and equipment		123,266	159,582
Intangibles	8	<u>1,126,000</u>	<u>1,395,000</u>
Total non-current assets		<u>1,249,266</u>	<u>1,554,582</u>
Total assets		<u>6,893,057</u>	<u>4,801,847</u>
Liabilities			
Current liabilities			
Trade and other payables		374,689	571,961
Lease liabilities		51,607	-
Provisions		256,672	300,541
Total current liabilities		<u>682,968</u>	<u>872,502</u>
Non-current liabilities			
Provisions		<u>2,047</u>	<u>29,539</u>
Total non-current liabilities		<u>2,047</u>	<u>29,539</u>
Total liabilities		<u>685,015</u>	<u>902,041</u>
Net assets		<u>6,208,042</u>	<u>3,899,806</u>
Equity			
Issued capital		232,632,424	232,632,424
Reserves		28,271,821	30,415,923
Accumulated losses		<u>(254,696,203)</u>	<u>(259,148,541)</u>
Total equity		<u>6,208,042</u>	<u>3,899,806</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Consolidated statement of changes in equity
For the period ended 30 June 2019

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2018	231,274,227	30,351,533	(255,157,521)	6,468,239
Loss after income tax expense for the period	-	-	(1,844,097)	(1,844,097)
Other comprehensive income for the period, net of tax	-	2,134	-	2,134
Total comprehensive income for the period	-	2,134	(1,844,097)	(1,841,963)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of share capital	1,371,688	-	-	1,371,688
Transaction costs	(13,491)	-	-	(13,491)
Employee equity settlement benefits	-	38,709	-	38,709
Balance at 30 June 2018	<u>232,632,424</u>	<u>30,392,376</u>	<u>(257,001,618)</u>	<u>6,023,182</u>
	Issued capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2019	232,632,424	30,415,923	(259,148,541)	3,899,806
Adjustment to opening accumulated losses for change in accounting standard (Note 2)	-	-	(7,115)	(7,115)
Balance at 1 January 2019 - restated	232,632,424	30,415,923	(259,155,656)	3,892,691
Profit after income tax expense for the period	-	-	2,305,152	2,305,152
Other comprehensive income for the period, net of tax	-	13	-	13
Total comprehensive income for the period	-	13	2,305,152	2,305,165
<i>Transactions with owners in their capacity as owners:</i>				
Transfer	-	(2,154,301)	2,154,301	-
Employee equity settlement benefits	-	10,186	-	10,186
Balance at 30 June 2019	<u>232,632,424</u>	<u>28,271,821</u>	<u>(254,696,203)</u>	<u>6,208,042</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Consolidated statement of cash flows
For the period ended 30 June 2019

	Consolidated	
	30 June 2019	30 June 2018
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	4,429,842	1,297,536
Receipt of recoveries	87,500	-
Receipt of government grants	-	1,252,095
Payments to suppliers and employees (inclusive of GST)	<u>(1,910,032)</u>	<u>(3,565,775)</u>
Net cash from/(used in) operating activities	<u>2,607,310</u>	<u>(1,016,144)</u>
Cash flows from investing activities		
Interest received	<u>15,907</u>	<u>25,683</u>
Net cash from investing activities	<u>15,907</u>	<u>25,683</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	1,371,688
Cost of issue of shares	-	(13,491)
Principle element of lease payments	<u>(44,611)</u>	<u>-</u>
Net cash from/(used in) financing activities	<u>(44,611)</u>	<u>1,358,197</u>
Net increase in cash and cash equivalents	2,578,606	367,736
Cash and cash equivalents at the beginning of the financial period	<u>2,111,171</u>	<u>2,898,596</u>
Cash and cash equivalents at the end of the financial period	<u><u>4,689,777</u></u>	<u><u>3,266,332</u></u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The financial statements cover Avecho Biotechnology Limited (previously Phosphagenics Limited) as a consolidated entity consisting of Avecho Biotechnology Limited and the entities it controlled at the end of, or during, the period. The financial statements are presented in Australian dollars, which is Avecho Biotechnology Limited's functional and presentation currency.

Avecho Biotechnology Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit A8, 2A Westall Road
Clayton VIC 3168
Australia

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 August 2019.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

New Accounting Standards and Interpretations adopted

AASB 16: Leases

The consolidated entity has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact on application

The consolidated entity has adopted AASB 16 using the modified retrospective approach whereby the consolidated entity has recognised the cumulative effect of initially applying this standard as an adjustment to the opening balance of equity as at 1 January 2019. Accordingly, the consolidated entity has not restated comparative balances in this set of financial statements.

Note 2. Significant accounting policies (continued)

On adoption of AASB 16, the consolidated entity recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.5%. The associated right-of-use assets for these leases were measured on a retrospective basis as if AASB 16 had always been applied, with the incremental borrowing rate applied as at each lease's commencement date and the assets depreciated on a straight-line basis over the term of the lease. The provisions recognised in respect of onerous lease contracts were netted off against the associated right-of-use assets at the date of transition.

Adjusted opening as
at 1 January 2019
under AASB 16

Right-of-use assets	87,244
Lease liabilities	(94,359)
Accumulated losses	7,115

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

Lease Liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas of assumptions and estimates are:

(1) R&D Tax Incentives

From 1 July 2011 the Australian Government has provided a tax incentive, in the form of a refundable tax offset of 43.5%, for eligible research and development expenditure. Management has assessed its research and development activities and expenditure to determine which are likely to be eligible under the scheme. For the period ended 30 June 2019 the Company has recorded an item in other income of \$197,513 (2018: \$319,494) to recognise this amount which relates to this period.

(2) Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the binomial and Black-Scholes methods taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(3) Estimated impairment of intangibles

The group tests whether intangible assets have suffered any impairment at each reporting date. The recoverable amount of intangible assets is assessed at its value in use. This calculation requires the use of assumptions.

Note 4. Operating segments

Identification of reportable operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing the performance and in determining the allocation of resources.

The operating segments are identified by management based on the Group's risks and returns that are affected predominantly by differences in the products and services provided. The reportable segments are based on aggregated operating segments determined according to the nature of the products and services provided, with each reportable segment representing a strategic business unit that offers different products and serves different markets.

Production

Production portfolio manufactures and sells TPM® and Vital ET® for the use in drug delivery and cosmetic formulations.

Human Health

Avecho's Human Health portfolio covers delivery of pharmaceutical products through gels, injectables and patches.

The division continues to prioritise development work on the two existing opioid patch assets: TPM®/Oxymorphone and TPM®/Oxycodone as well as continue to assess commercial opportunities for TPM® enhanced products delivered as injectables. Revenue is derived from royalty streams, licencing and contract research.

All other segments

The Animal Health and Nutrition segment did not meet materiality levels and is included in the other segments.

Note 4. Operating segments (continued)

Operating segment information

	Production \$	Human Health \$	Other segments \$	Total \$
Consolidated - 30 June 2019				
Sales, Licences and Royalties	4,151,919	24,277	-	4,176,196
Cost of sales	(180,842)	-	-	(180,842)
Recoveries	-	-	87,500	87,500
Interest revenue	-	-	7,593	7,593
Income from government grants	-	168,151	29,362	197,513
Depreciation and amortisation	-	-	(345,580)	(345,580)
Employee and directors benefit expense	(72,973)	(228,181)	(348,944)	(650,098)
Research expenses	(31,773)	(90,296)	-	(122,069)
Expenses allocated to inventory	46,396	-	4,590	50,986
Other operating expenses from continuing operations	(46,884)	(47,918)	(821,245)	(916,047)
Profit/(loss) before income tax expense	<u>3,865,843</u>	<u>(173,967)</u>	<u>(1,386,724)</u>	<u>2,305,152</u>
Income tax expense				-
Profit after income tax expense				<u>2,305,152</u>
Assets				
Segment assets	<u>201,049</u>	<u>21,007</u>	<u>6,671,001</u>	<u>6,893,057</u>
Total assets				<u>6,893,057</u>
Liabilities				
Segment liabilities	<u>-</u>	<u>-</u>	<u>685,015</u>	<u>685,015</u>
Total liabilities				<u>685,015</u>
Consolidated - 30 June 2018				
Sales, Licences and Royalties	689,963	129,929	-	819,892
Cost of sales	(369,313)	-	-	(369,313)
Other income	-	566,830	-	566,830
Interest revenue	-	-	25,026	25,026
Income from government grants	-	245,157	74,337	319,494
Depreciation and amortisation	(1,714)	-	(346,580)	(348,294)
Impairment losses	-	-	(157,000)	(157,000)
Employee and directors benefit expense	(162,356)	(394,126)	(881,742)	(1,438,224)
Research expenses	(10,738)	(184,798)	(66,514)	(262,050)
Expenses allocated to inventory	128,071	-	-	128,071
Other operating expenses from continuing operations	(54,448)	(55,539)	(1,018,542)	(1,128,529)
Profit/(loss) before income tax expense	<u>219,465</u>	<u>307,453</u>	<u>(2,371,015)</u>	<u>(1,844,097)</u>
Income tax expense				-
Loss after income tax expense				<u>(1,844,097)</u>
Consolidated - 31 December 2018				
Assets				
Segment assets	<u>476,252</u>	<u>13,677</u>	<u>4,311,918</u>	<u>4,801,847</u>
Total assets				<u>4,801,847</u>
Liabilities				
Segment liabilities	<u>-</u>	<u>-</u>	<u>902,041</u>	<u>902,041</u>
Total liabilities				<u>902,041</u>

Note 5. Revenue from contracts with customers

	Consolidated	
	30 June 2019	30 June 2018
	\$	\$
Sale of goods	580,490	683,334
Royalties	24,277	136,558
Licence fees*	3,571,429	-
	<u>4,176,196</u>	<u>819,892</u>
Revenue from contracts with customers	<u>4,176,196</u>	<u>819,892</u>

* Includes \$3,571,429 (USD\$2,500,000) one-time licence fee from Ashland for the global exclusive manufacturing rights to Vital ET® and TPM® for use in personal care products.

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	30 June 2019	30 June 2018
	\$	\$
<i>Major product lines</i>		
Production	4,151,919	683,334
Human Health	24,277	136,558
	<u>4,176,196</u>	<u>819,892</u>

Note 6. Employee and directors benefits expenses

	Consolidated	
	30 June 2019	30 June 2018
	\$	\$
Director fees	100,708	101,524
Research and development employee expenses	200,959	523,016
Redundancy costs	12,673	-
ESOP expenses	10,186	38,709
Other employee expenses	325,572	774,975
	<u>650,098</u>	<u>1,438,224</u>

Note 7. Other expenses

	Consolidated	
	30 June 2019	30 June 2018
	\$	\$
Net foreign exchange loss	8,675	(27,699)
Travel	109,284	113,120
Doubtful debts	-	103,803
Insurance	80,066	75,724
Shareholder and listing expenses	82,914	82,089
Patent portfolio expenses	226,338	120,392
Occupancy expenses	43,697	95,365
IT expense	4,108	8,658
Expenses allocated to inventory	(50,986)	(128,071)
Other expenses	35,645	62,606
	<u>539,741</u>	<u>505,987</u>

Note 8. Non-current assets - intangibles

	Consolidated	31 December
	30 June 2019	2018
	\$	\$
Intellectual property	121,362,000	121,362,000
Less: Accumulated amortisation and impairment	<u>(120,236,000)</u>	<u>(119,967,000)</u>
	<u><u>1,126,000</u></u>	<u><u>1,395,000</u></u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial period are set out below:

Consolidated	Intellectual property \$	Total \$
Balance at 1 January 2019	1,395,000	1,395,000
Amortisation expense	<u>(269,000)</u>	<u>(269,000)</u>
Balance at 30 June 2019	<u><u>1,126,000</u></u>	<u><u>1,126,000</u></u>

Impairment testing

Intellectual Property

Intellectual property asset cost represents the amortised cost of nine patents acquired by the Company at 31 December 2004, less accumulated amortisation and adjusted for any accumulated impairment loss. Intellectual property is amortised over its useful life, being the patent life of between 15 -19 years at acquisition (to between 2020 and 2023), and tested for indicators of impairment at each reporting date. In 2010 one of the purchased patents was abandoned.

The fair value of the acquired patents is dependent on the continued sales of Vital ET® and the commercialisation of TPM®/Oxycodone prior to the expiry of the patents. Revenue assumptions related to this have been assessed for delays in revenue receipts, with delays of one year not materially impacting the value of the assets.

Note 9. Contingent asset and liabilities

There were no contingent asset and liabilities for the period ended 30 June 2019.

Note 10. Events after the reporting period

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

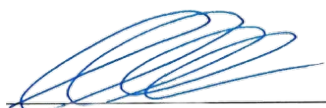
Avecho Biotechnology Limited
(Formerly known as Phosphagenics Limited)
Directors' declaration
30 June 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Dr Greg Collier
Chairman

29 August 2019

Independent Auditor's Review Report

To the members of Avecho Biotechnology Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Avecho Biotechnology Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Avecho Biotechnology Limited does not give a true and fair view of the financial position of the Group as at 30 June 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Avecho Biotechnology Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 29 August 2019