

STEMCELL UNITED LIMITED

APPENDIX 4E

FOR THE YEAR ENDED 30 JUNE 2017

The following information is given to ASX under listing rule 4.3A.

1. Reporting period

Current Period 12 months ended 30 June 2017

Prior Period 12 months ended 30 June 2016

2. Results for announcement to the market

	\$		\$	% Change
2.1 Revenue from ordinary activities	74,753	to	31,619	Down 58%
2.2 Loss after tax attributable to members	(35,618,359)	to	(2,399,753)	Down 93%
2.3 Net loss attributable to members	(35,618,359)	to	(2,399,753)	Down 93%
2.4 Dividend				
	N/A			
2.5 Record date for determining entitlements to the dividends				
	N/A			
2.6 Explanatory information				

The company is progressing on its traditional medicine business and achieved the following:

- Completed the market trials of its dendrobium essence infused facial mask (“Masks”) and finalized the ingredients formulation for the Masks.
- Established an initial level of distribution channels and achieved the first sale of Masks.
- Sale of dendrobium powder and Masks.

Recently company has commenced further production 50,000 Masks for selling.

During the year, the group recorded a loss of \$2,399,753 against a revenue of \$31,619. The majority of the loss is due to an impairment of \$2,139,871 on the Group’s intangible asset. The group has also recorded a gain of \$335,533 from waiver of amount due to a director and a related company of a director.

The company intends to extend its suite of TCM cosmetic products which incorporates dendrobium. As earlier announced, the company is evaluating opportunities in the traditional medicine market, with medicinal cannabis being the opportunity identified. The company is committed to expanding its operations into the medicinal cannabis field, which it considers to be compatible with and is a natural expansion of its existing business.

3. Statement of Profit or Loss and Other Comprehensive Income

Refer accompanying financial statement

4. Statement of Financial Position

Refer accompanying financial statement

5. Statement of Cash Flow

Refer accompanying financial statement

6. Dividends Paid or Recommended

N/A

7. Details of any Dividend or distribution reinvestment plans

N/A

8. Statement of movements in Retained Earnings

Refer statement of changes in equity in the accompanying financial statement

9. Net tangible assets per security

	30 June 2017	30 June 2016
Number of securities	386,037,672	364,636,932
Net tangible assets per security in cents	0.15	(0.08)

10. Changes in controlled entities

N/A

11. Details of associates and joint venture entities

N/A

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

Refer accompanying financial statements

13. Foreign entities disclosures

N/A

14. Additional information

14.1 Earnings per Share

Refer accompanying financial statements

14.2 Returns to Shareholders

Refer accompanying financial statements

14.3 Significant features of operating performance

The group recorded a loss of \$2,399,753, which included an impairment of intangible assets of \$2,139,871.

14.4 Results of segments

Refer accompanying financial statements

14.5 Trends in performance

Refer accompanying financial statements

14.6 Subsequent events

Refer accompanying financial statements

15. Compliance Statement

The financial statements are in the process of being audited.

16. If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph is described below

During the year ended 30 June 2017, the consolidated entity incurred a loss after income tax of \$2,399,753 and net cash outflows from operating activities of \$368,024. At 30 June 2017, the consolidated entity had \$1,042,558 in cash.

The ability of the consolidated entity to continue as a going concern depends on the consolidated entity generating additional cash inflows from:

- (i) The receipt of debt funding; or
- (ii) The receipt of equity funding.

Accordingly, there is material uncertainty that may cast doubt on the consolidated entity's ability to continue as a going concern. No adjustments have been made in relation to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Given this, the auditors have advised that their audit report is likely to include an emphasis of matter paragraph in relation to the above.

Stemcell United Limited

ACN 009 104 330

PRELIMINARY FINAL REPORT

For the year ended 30 June 2017

Stemcell United Limited

Statement of Profit or Loss and Other Comprehensive Income for the Year ended 30 June 2017

		2017 \$	2016 \$
Revenue		31,619	74,753
Cost of Sales		(25,642)	(86,758)
Gross profit		5,977	(12,005)
Other income		35,340	10,177
Waiver of amount due to a director and a related company of a director		335,533	-
Staff costs		(165,410)	(256,570)
Professional fees		(203,021)	(416,964)
Impairment	13	(2,139,871)	(34,497,464)
Interest expense		(2,953)	(109,986)
Administrative expenses		(265,348)	(321,936)
Profit/(Loss) before income tax expense		(2,399,753)	(35,604,748)
Income tax expense		-	(13,611)
Profit/(Loss) for the year		(2,399,753)	(35,618,359)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Translation of foreign subsidiary		22,685	(1,981)
Total comprehensive income (loss) for the year		(2,377,068)	(35,620,340)
Earnings per share			
Basic (cents per share)	8	(0.65)	(10.50)
Diluted (cents per share)	8	(0.65)	(10.50)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Stemcell United Limited

Statement of Financial Position as at 30 June 2017

	Note	2017 \$	2016 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,042,558	272,897
Trade and other receivables	2	17,537	132,255
TOTAL CURRENT ASSETS		1,060,095	405,152
NON CURRENT ASSETS			
Plant and equipment	3	36,084	36,084
Intangible assets	11	2,300,000	4,439,871
TOTAL NON CURRENT ASSETS		2,336,084	4,475,955
TOTAL ASSETS		3,396,179	4,881,107
LIABILITIES			
Trade and other payables	4	157,327	555,535
Borrowings		202,990	-
Amount due to a director		141,600	163,868
Income tax payable		6,772	7,146
TOTAL CURRENT LIABILITIES		508,689	726,549
TOTAL LIABILITIES		508,689	726,549
NET ASSETS		2,887,490	4,154,558
EQUITY			
Contributed equity	6	66,094,036	64,984,036
Option reserve	7	148,000	148,000
Retained earnings		(63,375,250)	(60,975,497)
Foreign currency translation reserve		20,704	(1,981)
TOTAL EQUITY		2,887,490	4,154,558

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Stemcell United Limited

Statement of Changes in Equity for the year ended 30 June 2017

	Contributed Equity	Option reserve	Retained Earnings	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2015	25,506,983	–	(25,357,138)	–	149,845
Shares issued	681,600	–	–	–	681,600
Share issue costs	(573,119)	–	–	–	(573,119)
Share issued on conversion of convertible notes	3,368,572	–	–	–	3,368,572
Fair value of shares issued to vendor of Stemcell United Pte Ltd	36,000,000	–	–	–	36,000,000
Fair value of options issued	–	148,000	–	–	148,000
Total comprehensive income	–	–	(35,618,359)	(1,981)	(35,620,340)
Balance at 30 June 2016 and 1 July 2016	64,984,036	148,000	(60,975,497)	(1,981)	4,154,558
Share issued on conversion of convertible notes	1,000,000	–	–	–	1,000,000
Fair value of shares issued to advisors	110,000	–	–	–	110,000
Total comprehensive income	–	–	(2,399,753)	22,685	(2,377,068)
Balance at 30 June 2017	66,094,036	148,000	(63,375,250)	20,704	2,887,490

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Stemcell United Limited

Statement of Cash Flows for the year ended 30 June 2017

	2017 \$	2016 \$
CASH FLOWS RELATING TO OPERATING ACTIVITIES		
Receipts from customers	31,419	74,753
Payment to suppliers and employees	(397,942)	(1,022,043)
Interest income	1,452	9,323
Interest expense	(2,953)	(4,048)
Income tax paid	-	(22,570)
Total cash used in operating activities	(368,024)	(964,585)
CASH FLOWS RELATING TO INVESTING ACTIVITIES		
Purchase of plant and machinery	-	(168,731)
Payment for acquisition of subsidiary, net of cash acquired	-	(2,413,762)
Total cash used in investing activities	-	(2,582,493)
CASH FLOWS RELATING TO FINANCING ACTIVITIES		
Proceeds from issue of shares	-	681,600
Payment of share issue costs	-	(425,119)
Proceeds from issue of convertible notes	1,000,000	-
Proceeds from loans	206,640	-
Repayment of loans	(55,617)	-
(Repayment of) /proceeds from director loan	(2,574)	11,175
Total cash from financing activities	1,148,449	267,656
Net increase/(decrease) in cash and cash equivalents	780,425	(3,279,422)
Cash and cash equivalents at beginning of financial year	272,897	3,554,300
Foreign currency translation differences	(10,764)	(1,981)
Cash and cash equivalents at end of financial year	1,042,558	272,897

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

This preliminary final report have been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The accounting policies have been consistently applied by the entity and are consistent with those disclosed in 30 June 2016 annual financial report and the interim financial report for the half year ended 31 December 2016.

NOTE 2: OTHER RECEIVABLES

	2017	2015
	\$	\$
CURRENT		
Trade receivables	6,004	–
Deposits	2,000	17,137
GST receivables	9,533	115,118
	17,537	132,255

NOTE 3: PLANT AND EQUIPMENT

	IT equipment	Machineries	Furniture	Renovation	TOTAL
	\$	\$	\$	\$	\$
Cost					
At 1 July 2015	–	–	–	–	–
Additions	12,056	61,752	61,509	45,471	180,788
Impairment	(12,056)	(21,659)	(61,509)	(45,471)	(140,695)
At 30 June 2016 and 1 July 2016	–	40,093	–	–	40,093
Additions	–	–	–	–	–
At 30 June 2017	–	40,093	–	–	40,093
Accumulated depreciation					
At 1 July 2015	–	–	–	–	–
Depreciation	6,363	6,175	6,151	4,547	23,236
Impairment	(6,363)	(2,166)	(6,151)	(4,547)	(19,227)
At 30 June 2016 and 1 July 2016	–	4,009	–	–	4,009
Depreciation	–	–	–	–	–
At 30 June 2017	–	4,009	–	–	4,009
Carrying amount					
At 30 June 2017	–	36,084	–	–	36,084
At 30 June 2016	–	36,084	–	–	36,084

NOTE 4: TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
CURRENT		
Trade payables	7,415	117,357
Other payables	67,170	342,123
Accrued expenses	82,742	96,055
	157,327	555,535

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2017

NOTE 5: CONVERTIBLE NOTES

The Company issued 1,000,000 convertible notes ("Notes") for \$1,000,000 on 31 March 2017. The Notes could be converted into such number of ordinary shares as is the product of the aggregate Subscription Amount for such Notes divided by 80% of the VWAP over the preceding 5 day trading period immediately prior to the issue of the shares into which the Notes are to be converted. The Notes earned interest at the rate of 12% per annum, such interest to be paid on the earlier of the date on which the Notes are repaid in full, and the date on which the Notes are converted. If the Notes are converted, the interest to be paid will be converted into ordinary shares per the formula above. If not converted, the Notes would be repaid, together with interest on the second anniversary of issue.

On 28 April 2017, 650,000 Notes were converted into 7,142,675 ordinary shares. On 15 May 2017, remaining 350,000 Notes were converted into 3,258,065 ordinary shares.

NOTE 6: CONTRIBUTED EQUITY

	2017 \$	2016 \$
Issued and fully paid ordinary shares	66,094,036	64,984,036
Movements in ordinary shares		
	Number of shares	A\$
At 1 July 2015	433,355,149	25,506,983
Reconstruction of issued shares (2 shares to 1 share)	(216,676,904)	-
Conversion of convertible notes to shares	24,550,687	3,368,572
Allotment of prospectus shares, net of costs	3,408,000	108,481
Issue of shares to vendor on acquisition of subsidiary	120,000,000	36,000,000
At 30 June 2016 and 1 July 2016	364,636,932	64,984,036
Issue of shares to advisors	11,000,000	110,000
Conversion of convertible notes to shares	10,400,740	1,000,000
At 30 June 2017	386,037,672	66,094,036

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2017

NOTE 7: OPTION RESERVE

	2017 \$	2016 \$
Option Reserve	148,000	148,000
Movements in Option Reserve	Number of options	\$
At 1 July 2015	–	–
Issued during the period (A\$0.20 per option)	2,000,000	148,000
At 30 June 2016 and 1 July 2016	2,000,000	148,000
	–	–
At 30 June 2017	2,000,000	148,000

On 14 September 2015, 2,000,000 options were issued to nominees of APP Securities Pty Ltd as lead manager of the prospectus fund raising. The assessed fair value at grant date of options issued to APP Securities Pty Ltd was A\$148,000. The fair value at grant date is determined using the Black Scholes Model.

The model inputs for the options granted included:

- (a) exercise price: A\$0.20
- (b) grant date: 14 September 2015
- (c) expiry date: 14 September 2018
- (d) share price at grant date: A\$0.20
- (e) expected price volatility of the company's shares: 50%
- (f) risk-free interest rate: 3.5%

NOTE 8: EARNINGS PER SHARE (EPS)

	2017 \$	2016 \$
(a) Reconciliation of Earnings to Net Profit or Loss		
Net profit	(2,399,753)	(35,618,359)
Earnings used in the calculation of basic EPS	(2,399,753)	(35,618,359)
Earnings used in the calculation of dilutive EPS	(2,399,753)	(35,618,359)
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	369,416,196	339,175,456
Weighted average number of options*	2,000,000	1,589,041
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	369,416,196*	339,175,456*

*Options are considered anti-dilutive as at 30 June 2017 and 30 June 2016 and therefore are not included in the computation of the dilutive EPS

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2017

NOTE 9: SEGMENT INFORMATION

The directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are received by the Board in allocating resources and have concluded at this time that there are no separately identifiable segments as the consolidated group operated in one business segment of sourcing, producing, marketing and selling of traditional medicines.

The geographical segment information of the group are as follows:

2017	Australia \$	Singapore \$	Hong Kong \$	Total \$
Revenue	-	6,054	25,565	31,619
Profit / (Loss)	(2,717,839)	327,363	(9,277)	(2,399,753)
Total assets	3,216,629	145,091	34,459	3,396,179
Total liabilities	(170,128)	(338,561)	-	(508,689)

2016	Australia \$	Singapore \$	Total \$
Revenue	-	74,753	74,753
Profit / (Loss)	(34,092,915)	(1,525,444)	(35,618,359)
Total assets	4,784,732	96,375	4,881,107
Total liabilities	(24,759)	(701,790)	(726,549)

NOTE 10: SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors to affect the operations of the consolidated entity, the results of these operations or the state of affairs of the entity.

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2017

NOTE 11: INTANGIBLE ASSETS

	2017 \$	2016 \$
Intellectual property – Dendrobium Officinale meristematic plant cells and method of isolating them	2,300,000	4,439,871

During the year ended 30 June 2016, the company applied the provision accounting approach, as permitted under Australian Accounting Standard AASB 3 Business Combinations to the intangible asset balance, and recognised all intangibles on the business combination that occurred during the year ended 30 June 2016 as goodwill. The goodwill of \$37,877,992 was subsequently impaired to \$4,439,871 during the year ended 30 June 2016.

During the year ended 30 June 2017, the directors assessed that the intangible balance acquired that had not been impaired at 30 June 2016 related to the intellectual property of the Dendrobium Officinale meristematic plant cells and method of isolating them, of which an independent valuation was obtained from BMI Appraisals Limited. Accordingly, the goodwill recorded in the financial statements at 30 June 2016 has been reclassified as Intellectual Property of Dendrobium Officinale meristematic plant cells and method of isolating them in the comparative balance above.

During the year ended 30 June 2017 the directors obtained an independent valuation of goodwill from BMI Appraisals Limited, and based on the valuation, the directors impaired the intangible asset by \$2,139,871 (2016: \$33,438,121), bring the value to \$2,300,000 (2016: \$4,439,871).

NOTE 12: IMPAIRMENT

	2017 \$	2016 \$
Impairment of inventory	–	937,875
Impairment of plant and equipment	–	121,468
Impairment of intangible asset	2,139,871	33,438,121
	<u>2,139,871</u>	<u>34,497,464</u>

NOTE 13: COMPANY DETAILS

The registered office of Stemcell United Limited is Level 2, 350 Kent Street, Sydney NSW, Australia.