

STEMCELL UNITED LIMITED

APPENDIX 4E

FOR THE YEAR ENDED 30 JUNE 2016

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

1. Reporting period

Current Period 12 months ended 30 June 2016

Prior Period 12 months ended 30 June 2015

2. Results for announcement to the market

	\$		\$	% Change
2.1 Revenue from ordinary activities	–	to	74,753	N/A
2.2 Loss/profit after tax attributable to members	75,041,240	to	(35,618,359)	N/A
2.3 Net loss/profit attributable to members	75,041,240	to	(35,618,359)	N/A
2.4 Dividend				
				N/A
2.5 Record date for determining entitlements to the dividends				
				N/A
2.6 Explanatory information				

The company was placed into voluntary administration on 28 July 2008 and subsequently placed into liquidation on 23 December 2008. A Deed of Company Arrangement (DOCA) was entered into on 12 March 2014. The Company was released from the DOCA on 27 November 2014. The net profit for the year ended 30 June 2015 of \$75,041,240 was mainly due to “Write-back of payables on settlement of DOCA” amounting to \$76,272,483.

The company was reinstated on the ASX official list on 14 September 2015 after completing a prospectus fund raising and acquiring Stemcell United Pte Ltd, a Singapore based biotechnology company. The book value of the acquisition was \$38,500,000 which consists of consideration of cash payment of \$2,500,000 and \$36,000,000 in shares (120,000,000 shares at \$0.30 per share), thereby giving rise to a goodwill of \$37,877,992. At year end of 30 June 2016, the company undertook an independent valuation of the goodwill which re-valued the goodwill at a fair value of \$4,439,871. This resulted in an impairment loss on goodwill of \$33,438,121.

In addition the slowdown in the China market has caused reduction in demand for resina product, which resulted in additional impairment loss on the plant and machinery of \$121,468 and inventory of \$937,875.

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 2016	30 June 2015
Number of securities	364,636,932	433,355,149
Net tangible assets per security in cents	(0.08)	0.31

10. Changes in controlled entities

Refer accompanying financial statement

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 statement

13. Foreign entities disclosures

N/A

14. Additional information

14.1 Earnings per Share

Refer accompanying financial statement

14.2 Returns to Shareholders

Refer accompanying financial statement

14.3 Significant features of operating performance

The group recorded a loss of \$35,618,359, mainly due to fair value revaluation which resulted in the impairment of goodwill on acquisition of subsidiary, on inventory and on plant and machinery, amounting in aggregate to \$34,497,464.

14.4 Results of segments

Refer accompanying financial statement

14.5 Trends in performance

Refer accompanying financial statement

14.6 Subsequent events

Refer accompanying financial statement

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 2016, the consolidated entity incurred a loss after income tax of \$35,618,359 and net cash outflows from operating activities of \$964,585. At 30 June 2016, the consolidated entity had \$272,897 in cash, and an excess of current liabilities over current assets of \$321,398.

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 2016

Stemcell United Limited

Statement of Profit or Loss and Other Comprehensive Income for the Year ended 30 June 2016

		2016 \$	2015 \$
Revenue		74,753	–
Cost of Sales		(86,758)	–
Gross profit		(12,005)	–
Other income		10,177	6,826
Staff costs		(256,570)	(71,175)
Professional fees		(416,964)	(661,441)
Share based payments		–	(226,630)
Settlement of Deed of Company Arrangement (“DOCA”)		–	(100,000)
Write-back of payables on settlement of DOCA		–	76,272,483
Impairment	13	(34,497,464)	–
Interest expense		(109,986)	(128,891)
Administrative expenses		(321,936)	(49,932)
Profit/(Loss) before income tax expense		(35,604,748)	75,041,240
Income tax expense		(13,611)	–
Profit/(Loss) for the year		(35,618,359)	75,041,240
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Translation of foreign subsidiary		(1,981)	–
Total comprehensive income for the year		(35,620,340)	75,041,240
Earnings per share			
Basic (cents per share)	8	(10.50)	30.99
Diluted (cents per share)	8	(10.50)	29.50

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 2016

	Note	2016 \$	2015 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalent		272,897	3,554,300
Trade and other receivables	2	132,255	26,372
TOTAL CURRENT ASSETS		405,152	3,580,672
NON CURRENT ASSETS			
Plant and equipment	3	36,084	–
Goodwill	12	4,439,871	–
TOTAL NON CURRENT ASSETS		4,475,955	–
TOTAL ASSETS		4,881,107	3,580,672
LIABILITIES			
Trade and other payables	4	555,535	168,193
Amount due to a director		163,868	–
Income tax payable		7,146	–
Convertible notes	5	–	3,262,634
TOTAL CURRENT LIABILITIES		726,549	3,430,827
TOTAL LIABILITIES		726,549	3,430,827
NET ASSETS/LIABILITIES		4,154,558	149,845
EQUITY			
Contributed equity	6	64,984,036	25,506,983
Option reserve	7	148,000	–
Retained earnings		(60,975,497)	(25,357,138)
Foreign currency translation reserve		(1,981)	–
TOTAL EQUITY		4,154,558	149,845

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 2016

	Contributed Equity	Option reserve	Retained Earnings	Foreign currency translation reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2014	24,147,000	–	(100,398,378)	–	(76,251,378)
Shares issued	940,130	–	–	–	940,130
Share issuance cost	(78,000)	–	–	–	(78,000)
Conversion of performance option	194,500	–	–	–	194,500
Value of conversion rights on convertible notes issued	303,353	–	–	–	303,353
Total comprehensive income	–	–	75,041,240	–	75,041,240
Balance at 30 June 2015 and 1 July 2015	25,506,983	–	(25,357,138)	–	149,845
Shares issued	681,600	–	–	–	681,600
Share issuance cost	(573,119)	–	–	–	(573,119)
Share issued on conversion of convertible notes	3,368,572	–	–	–	3,368,572
Fair value of shares issued to vendor	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	64,984,036	148,000	(60,975,497)	(1,981)	4,154,558

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 2016

	2016 \$	2015 \$
CASH FLOWS RELATING TO OPERATING ACTIVITIES		
Receipts from customers	190,593	–
Payment to suppliers and employees	(1,137,915)	(619,722)
Interest income	9,323	6,826
Interest expense	(4,048)	–
Income tax paid	(22,538)	–
Total cash used in operating activities	<u>(964,585)</u>	<u>(612,896)</u>
CASH FLOWS RELATING TO INVESTING ACTIVITIES		
Purchase of plant and machinery	(168,731)	–
Payment for acquisition of subsidiary, net of cash acquired on acquisition	(2,413,762)	–
Total cash from investing activities	<u>(2,582,493)</u>	<u>–</u>
CASH FLOWS RELATING TO FINANCING ACTIVITIES		
Proceeds from issue of shares	681,600	905,000
Payment of share issue cost	(425,119)	(78,000)
Proceeds from issue of performance options	–	1,000
Proceeds from exercise of performance options	–	2,000
Proceeds from issue of converting notes	–	3,437,096
Settlement of Deed of Company Arrangement	–	(100,000)
Loan from director	11,175	100
Total cash from investing activities	<u>267,657</u>	<u>4,167,196</u>
Net increase in cash and cash equivalent	(3,279,421)	3,554,300
Cash and cash equivalent at beginning of financial year	3,554,300	–
Foreign currency translation differences	(1,981)	–
Cash and cash equivalent at end of financial year	<u>272,897</u>	<u>3,554,300</u>

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 2016

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 2015 annual financial report and the interim financial report for the half year ended 31 December 2015.

NOTE 2: OTHER RECEIVABLES

	2016 \$	2015 \$
CURRENT		
Deposits	17,137	–
GST receivables	115,118	26,372
	<u>132,255</u>	<u>26,372</u>

NOTE 3: PLANT AND EQUIPMENT

	IT equipment S\$	Machineries S\$	Furniture S\$	Renovation S\$	TOTAL S\$
Cost					
At 1 July 2015	–	–	–	–	–
Additions	12,056	61,752	61,508	45,471	180,787
Impairment	(12,056)	(21,659)	(61,508)	(45,471)	(140,694)
At 30 June 2016	<u>–</u>	<u>40,093</u>	<u>–</u>	<u>–</u>	<u>40,093</u>
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	<u>–</u>	<u>4,009</u>	<u>–</u>	<u>–</u>	<u>4,009</u>
Carrying amount					
At 30 June 2016	<u>–</u>	<u>36,084</u>	<u>–</u>	<u>–</u>	<u>36,084</u>
At 30 June 2015	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

NOTE 4: TRADE AND OTHER PAYABLES

	2016 \$	2015 \$
CURRENT		
Trade payables	117,357	–
Other payables	342,123	168,193
Accrued expenses	96,055	
	<u>555,535</u>	<u>168,193</u>

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2016

NOTE 5: CONVERTIBLE NOTES

The Company issued 49,101,374 convertible notes for \$3,437,096 on 30 March 2015. On September 2015 at re-quotations of the Company's shares on the ASX, the notes were converted into ordinary shares of the Company on a 1 to 1 basis.

The convertible notes are presented in the balance sheet as follows:

	2016	2015
	\$	\$
Face value of notes issued	–	3,437,096
Less: Value of conversion rights (equity component)	–	(303,353)
	–	3,133,743
Interest expense*	–	128,891
Current liability component	–	3,262,634

* Interest expense is calculated by applying an effective interest rate of 15% to the liability component.

The initial fair value of the liability component was determined using a market interest rate for equivalent non-convertible debt of 15% at the date of issue. The remainder of the proceeds are allocated to the conversion option and recognised in shareholders equity and is not subsequently remeasured.

NOTE 6: CONTRIBUTED EQUITY

	2016	2015
	\$	\$
Issued and fully paid ordinary shares	364,636,932	433,355,149
Movements in ordinary shares	Number of shares	A\$
At the beginning of reporting period	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 cost	3,408,000	108,481
Issue of shares to vendor on acquisition of subsidiary	120,000,000	36,000,000
At reporting date	364,636,932	64,984,036

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 2016

NOTE 7: OPTION RESERVE

	2016 \$	2015 \$
Option Reserve	148,000	–
Movements in Option Reserve		
Balance at the beginning of the financial period	–	–
Issued during the period (A\$0.20 per option)	2,000,000	148,000
Balance at the reporting date	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)

	2016 \$	2015 \$
(a) Reconciliation of Earnings to Net Profit or Loss		
Net profit	(35,618,359)	75,041,240
Earnings used in the calculation of basic EPS	(35,618,359)	75,041,240
Earnings used in the calculation of dilutive EPS	(35,618,359)	75,041,240
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	339,175,456	242,147,702
Weighted average number of options*	1,589,041	12,241,712
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	339,175,456*	254,389,414

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

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.

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2016

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 option of the directors to affect the operations of the consolidated entity, the results of these operations or the state of affairs of the entity.

NOTE 11: ACQUISITION OF STEMCELL UNITED PTE LTD

On 14 September 2015, the Company acquired 100% of the issued share capital of Stemcell United Pte Ltd, a Singapore based biotechnology company.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration	\$
Cash paid	2,500,000
120,000,000 Ordinary shares issued	<u>36,000,000</u>
Total purchase consideration	<u>38,500,000</u>

As the Company's shares were suspended from trading when the terms of the consideration for this acquisition was agreed, the fair value of the 120,000,000 shares issued as part of the consideration was based on the price agreed between the Company and the seller of Stemcell United Pte Ltd of A\$0.30 per share.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value \$
Cash and cash equivalents	86,238
Trade and other receivables	368,119
Inventory	476,993
Property plant and equipment	9,012
Trade and other payables	(302,281)
Income tax payable	<u>(16,073)</u>
Net identifiable assets acquired	622,008
Goodwill	<u>37,877,992</u>
Net assets acquired	<u>38,500,000</u>

The business has initially been accounted for on a provisional basis. The consolidated group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the date of acquisition. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer received all possible information possible to determine fair value.

Net cash outflow arising from the acquisition

	\$
Cash paid	2,500,000
Cash acquired	<u>(86,238)</u>
Net cash outflow	<u>2,413,762</u>

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2016

NOTE 12: GOODWILL

	2016 \$	2015 \$
Goodwill recognised on acquisition of subsidiary (note 11)	37,877,992	–
Impairment of goodwill	(33,438,121)	–
Fair value balance of goodwill at reporting date	<u>4,439,871</u>	<u>–</u>

The directors obtained an independent valuation of goodwill from BMI Appraisals Limited, and based on the valuation, the directors impaired the goodwill by \$33,438,121.

NOTE 13: IMPAIRMENT

	2016 \$	2015 \$
Impairment of inventory	937,875	–
Impairment of plant and equipment	121,468	–
Impairment of goodwill	33,438,121	–
	<u>34,497,464</u>	<u>–</u>

NOTE 14: COMPANY DETAILS

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