

STEMCELL UNITED LIMITED

APPENDIX 4E

FOR THE YEAR ENDED 30 JUNE 2018

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

1. Reporting period

Current Period 12 months ended 30 June 2018

Prior Period 12 months ended 30 June 2017

2. Results for announcement to the market

	2017		2018	% Change
	\$		\$	
2.1 Revenue from ordinary activities	31,619	to	290,680	Up 819%
2.2 Loss after tax attributable to members	(3,631,079)	to	(3,353,398)	Down 8%
2.3 Net loss attributable to members	(3,631,079)	to	(3,353,398)	Down 8%
2.4 Dividend				
	N/A			
2.5 Record date for determining entitlements to the dividends				
	N/A			
2.6 Explanatory information				

The group recorded a reduced loss of \$3,353,398 (2017 loss of \$3,631,079) against an increased revenue of \$290,680 (2017: \$31,619).

The group's traditional medicine business is progressing well and has achieved the following:

- Large increase in revenue from dendrobium related products.
- Re-started the resina business with the delivery of 1 tonne resina (with selling price of US\$200,000). However, as the custom's clearance was not granted until after year end, the resina sale will be recognised as revenue during the year ending 30 June 2019 and is recorded as goods in transit for current financial year. This 1 tonne resina sale is part of the contract to supply 50 tonnes of resina to Zhejiang Forest Rainbow Medical Co Ltd, over five years.

In addition, SCU has also entered into a co-operation agreement with Yunnan Hua Fang Industrial Hemp Co Ltd (HFIH) in China. Through this collaboration with HFIH, SCU is able to use HFIH's resources for SCU's cosmetic cannabis business and also for SCU's products penetration into the Traditional Chinese Medicine (TCM) market in China. The agreement also provides SCU with an exclusive right to invest for a 51% interest in HFIH. HFIH has, in June 2018, been awarded with an industrial hemp licence in Yunnan Province, China.

3. Statement of Profit or Loss and Other Comprehensive Income

Refer accompanying preliminary financial report

4. Statement of Financial Position

Refer accompanying preliminary financial report

5. Statement of Cash Flow

Refer accompanying preliminary financial report

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 preliminary financial report

9. Net tangible assets per security

	30 June 2018	30 June 2017
Number of securities	513,345,206	386,037,672
Net tangible assets per security in cents	0.23	0.16

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 preliminary financial report

13. Foreign entities disclosures

N/A

14. Additional information

14.1 Earnings per Share

Refer accompanying preliminary financial report

14.2 Returns to Shareholders

Refer accompanying preliminary financial report

14.3 Significant features of operating performance

Refer accompanying preliminary financial report

14.4 Results of segments

Refer accompanying preliminary financial report

14.5 Trends in performance

Refer accompanying preliminary financial report

14.6 Subsequent events

Refer accompanying preliminary financial report

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 2018, the consolidated entity incurred a loss after income tax of \$3,353,398 and net cash outflows from operating activities of \$1,560,204. At 30 June 2018, the consolidated entity had \$1,086,365 in cash.

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

- Generating sufficient revenue in excess of expenses from sales of Resina, Dendrobium or new products;
- The receipt of debt funding; or
- 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 2018

Statement of Profit or Loss and Other Comprehensive Income for the Year ended 30 June 2018

		2018 \$	2017 \$
Revenue		290,680	31,619
Cost of Sales		(224,771)	(25,968)
Gross profit		65,909	5,651
Other revenue and income		2,463	35,340
Waiver of amount due to a director and a related company of a director		-	335,533
Staff costs and directors' fees		(411,258)	(165,410)
Professional fees		(779,286)	(203,021)
Depreciation and amortisation		(102,457)	(110,997)
Impairment	11	(1,445,409)	(2,791,874)
Interest expense		-	(2,953)
Administrative expenses		(683,360)	(733,348)
Profit/(Loss) before income tax expense		(3,353,398)	(3,631,079)
Income tax expense		-	-
Profit/(Loss) for the year		(3,353,398)	(3,631,079)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Translation of foreign subsidiary		(24,888)	22,687
Total comprehensive income (loss) for the year		(3,378,286)	(3,608,392)
Earnings per share			
Basic (cents per share)	8	(0.77)	(0.98)
Diluted (cents per share)	8	(0.77)	(0.98)

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

Statement of Financial Position as at 30 June 2018

	Note	2018 \$	2017 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,086,365	1,042,558
Trade and other receivables	2	88,863	17,213
Inventory	3	243,568	-
TOTAL CURRENT ASSETS		1,418,796	1,059,771
NON CURRENT ASSETS			
Plant and equipment	4	162,845	36,084
Intangible assets	11	1	1,537,000
TOTAL NON CURRENT ASSETS		162,846	1,573,084
TOTAL ASSETS		1,581,642	2,632,855
LIABILITIES			
Trade and other payables	5	353,684	157,327
Borrowings		-	202,990
Amount due to a director		-	141,600
Income tax payable		27,285	6,772
TOTAL CURRENT LIABILITIES		380,969	508,689
TOTAL LIABILITIES		380,969	508,689
NET ASSETS		1,200,673	2,124,166
EQUITY			
Contributed equity	6	68,966,829	66,094,036
Option reserve	7	148,000	148,000
Other equity	12	50,000	468,000
Retained earnings		(67,959,974)	(64,606,576)
Foreign currency translation reserve		(4,182)	20,706
TOTAL EQUITY		1,200,673	2,124,166

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 2018

	Contributed Equity	Option reserve	Convertible note	Other Equity	Retained Earnings	Foreign currency translation reserve	Total
	\$	\$	\$		\$	\$	\$
Balance at 30 June 2016 and 1 July 2016	64,984,036	148,000	–	–	(60,975,497)	(1,981)	4,154,558
Issue of convertible note	–	–	1,000,000	–	–	–	1,000,000
Share issued on conversion of convertible notes	1,000,000	–	(1,000,000)	–	–	–	–
Fair value of shares issued to advisors	110,000	–	–	–	–	–	110,000
Fair value of shares to be issued to advisors	–	–	–	468,000	–	–	468,000
Total comprehensive income	–	–	–	–	(3,631,079)	22,687	(3,608,392)
Balance at 30 June 2017 and 1 July 2017	66,094,036	148,000	–	468,000	(64,606,576)	20,706	2,124,166
Placement issue	600,000	–	–	–	–	–	600,000
Entitlement issue	1,664,151	–	–	–	–	–	1,664,151
Fair value of shares issued to directors and advisors	762,000	–	–	(468,000)	–	–	294,000
Fair value of shares to be issued to advisor	–	–	–	50,000	–	–	50,000
Fundraising costs	(153,358)	–	–	–	–	–	(153,358)
Total comprehensive income	–	–	–	–	(3,353,398)	(24,888)	(3,378,286)
Balance at 30 June 2018	68,966,829	148,000	–	50,000	(67,959,974)	(4,182)	1,200,673

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

Statement of Cash Flows for the year ended 30 June 2018

	2018 \$	2017 \$
CASH FLOWS RELATING TO OPERATING ACTIVITIES		
Receipts from customers	265,949	31,419
Payment to suppliers and employees	(1,828,616)	(397,944)
Interest income	2,463	1,452
Interest expense	-	(2,953)
Total cash used in operating activities	(1,560,204)	(368,026)
CASH FLOWS RELATING TO INVESTING ACTIVITIES		
Purchase of plant and machinery	(137,628)	-
Total cash used in investing activities	(137,628)	-
CASH FLOWS RELATING TO FINANCING ACTIVITIES		
Proceeds from issue of shares	2,127,055	-
Payment of share issue costs	(16,262)	-
Proceeds from issue of convertible notes	-	1,000,000
Proceeds from loans	-	206,640
Repayment of loans	(202,990)	(55,617)
(Repayment of) /proceeds from director loan	(141,600)	(2,574)
Total cash from financing activities	1,766,203	1,148,449
Net increase in cash and cash equivalents	68,371	780,423
Cash and cash equivalents at beginning of financial year	1,042,558	272,897
Foreign currency translation differences	(24,564)	(10,762)
Cash and cash equivalents at end of financial year	1,086,365	1,042,558

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 2018

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 2017 annual financial report and the interim financial report for the half year ended 31 December 2017.

NOTE 2: TRADE AND OTHER RECEIVABLES

	2018	2017
	\$	\$
CURRENT		
Trade receivables	32,735	6,004
Deposits	-	2,000
GST receivables	56,128	9,209
	<u>88,863</u>	<u>17,213</u>

NOTE 3: INVENTORY

	2018	2017
	\$	\$
CURRENT		
Raw Materials	5,246	-
Finished goods	27,311	-
Goods in transit	211,011	-
	<u>243,568</u>	<u>-</u>

The Goods in transit relates to resina sale awaiting China custom clearance at balance date.

NOTE 4: PLANT AND EQUIPMENT

	Machines	TOTAL
	\$	\$
Cost		
At 1 July 2016	40,093	40,093
Additions	-	-
At 30 June 2017 and 1 July 2017	<u>40,093</u>	<u>40,093</u>
Additions	137,628	137,628
At 30 June 2018	<u>177,721</u>	<u>177,721</u>
Accumulated depreciation		
At 1 July 2016	4,009	4,009
Depreciation	-	-
At 30 June 2017 and 1 July 2017	<u>4,009</u>	<u>4,009</u>
Depreciation	10,867	10,867
At 30 June 2018	<u>14,876</u>	<u>14,876</u>
Carrying amount		
At 30 June 2017	<u>36,084</u>	<u>36,084</u>
At 30 June 2018	<u>162,845</u>	<u>162,845</u>

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2018

NOTE 5: TRADE AND OTHER PAYABLES

	2018 \$	2017 \$
CURRENT		
Trade payables	7,792	7,415
Other payables*	253,038	67,170
Accrued expenses	92,854	82,742
	<u>353,684</u>	<u>157,327</u>

*Included in other payables is a prepayment of \$134,273 (2017: NIL) received from the sale of resina which is awaiting China custom's clearance at balance date.

NOTE 6: CONTRIBUTED EQUITY

	2018 \$	2017 \$
Issued and fully paid ordinary shares	68,966,829	66,094,036
Movements in ordinary shares	Number of shares	A\$
At 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 and 1 July 2017	386,037,672	66,094,036
Placement issues	30,000,000	600,000
Entitlement issues	83,207,534	1,664,151
Issue of shares to directors and advisors	14,100,000	762,000
Fundraising costs		(153,358)
At 30 June 2018	<u>513,345,206</u>	<u>68,966,829</u>

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.

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Notes to the Financial Statements for the Financial Year Ended 30 June 2018

NOTE 7: OPTION RESERVE

	2018 \$	2017 \$
Option Reserve	148,000	148,000
Movements in Option Reserve	Number of options	\$
At 1 July 2016, 30 June 2017 and 30 June 2018	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)

	2018 \$	2017 \$
(a) Reconciliation of Earnings to Net Profit or Loss		
Net profit	(3,353,398)	(3,631,079)
Earnings used in the calculation of basic EPS	(3,353,398)	(3,631,079)
Earnings used in the calculation of dilutive EPS	(3,353,398)	(3,631,079)
	No.	No.
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	438,031,964	369,416,196
Weighted average number of options*	2,000,000	2,000,000
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	438,031,964*	369,416,196*

*Options are considered anti-dilutive as at 30 June 2018 and 30 June 2017 and therefore are not included in the computation of the dilutive EPS

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Notes to the Financial Statements for the Financial Year Ended 30 June 2018

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 is as follows:

2018	Australia \$	Singapore \$	Hong Kong \$	Total \$
Revenue	-	257,185	33,495	290,680
Profit / (Loss)	(3,028,353)	(300,667)	(24,378)	(3,353,398)
Total assets	820,707	750,857	10,078	1,581,642
Total liabilities	(109,277)	(271,692)	-	(380,969)

2017	Australia \$	Singapore \$	Hong Kong \$	Total \$
Revenue	-	6,054	25,565	31,619
Profit / (Loss)	(3,948,839)	327,037	(9,277)	(3,631,079)
Total assets	2,453,629	144,767	34,459	2,632,855
Total liabilities	(170,129)	(338,560)	-	(508,689)

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.

Stemcell United Limited

Notes to the Financial Statements for the Financial Year Ended 30 June 2018

NOTE 11: INTANGIBLE ASSETS

	2018 \$	2017 \$
Balance of intangible assets at beginning of the year	1,537,000	4,439,871
Impairment of intangible assets during the year	(1,445,409)	(2,791,874)
Amortisation during the period	(91,590)	(110,997)
Balance of intangible assets at reporting date	1	1,537,000

The directors obtained an independent valuation of the intangibles from BMI Appraisals Limited in August 2017, and based on the valuation, the directors determined the fair value at 30 June 2017 to be \$1,537,000. The valuation was completed on 25 September 2017 by BMI Appraisal Limited. As a result, an impairment charge of \$2,791,874 was recorded for the year ended 30 June 2017.

The actual results for the year ended 30 June 2018 were below those forecasted. If the actual results are used as an estimate of future earnings in the impairment assessment prepared by management, this results in the intangible asset being impaired in full. Accordingly, the directors have decided to take a prudent stance and have impaired the intangible asset in full. This has resulted in an impairment charge of \$1,445,409 being recorded for the year ended 30 June 2018. Should the revenues increase in future, the impairment may be reversed. Any reversal of impairment would result in an increase of the carrying value of the intangible asset equal to the amount of the impairment reversal.

NOTE 12: OTHER EQUITY

	2018 \$	2017 \$
Balance at beginning of the year	468,000	-
Shares payable upon fulfilment of conditions, but not yet issued	50,000 [^]	468,000*
Issue of shares to advisors	(468,000)*	-
Balance of intangible assets at reporting date	50,000	468,000

*The \$468,000 relates to the 3.6 million shares payable upon execution of an agreement to introduce and facilitate a deal with iCAN Israel Cannabis Limited, but not yet issued at balance date of 30 June 2017, valued at \$0.13 per share. The shares were issued during the year ended 30 June 2018.

[^]The \$50,000 relates to 2 million shares payable to an advisor for introducing and facilitating a deal to collaborate with Yunnan Huafang Industrial Hemp Co Ltd, but not yet issued at balance date of 30 June 2018, valued at \$0.025 per share.

NOTE 13: COMPANY DETAILS

The registered office of Stemcell United Limited is Level 12, 680 George Street, Sydney NSW, Australia.