

STEMCELL UNITED LIMITED

APPENDIX 4E

FOR THE YEAR ENDED 30 JUNE 2020

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

1. Reporting period

Current Period 12 months ended 30 June 2020

Prior Period 12 months ended 30 June 2019

2. Results for announcement to the market

	2019		2020	% Change
	\$		\$	
2.1 Revenue from ordinary activities	1,561,429	to	730,356	down 53%
2.2 Loss after tax attributable to members	(2,267,112)	to	(1,527,289)	down 33%
2.3 Net loss attributable to members	(2,267,112)	to	(1,527,289)	down 33%
2.4 Dividend				
	N/A			
2.5 Record date for determining entitlements to the dividends				
	N/A			
2.6 Explanatory information				
	Refer accompanying preliminary financial report			

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 2019	30 June 2020
Number of securities	641,608,364	641,608,364
Net tangible assets per security in cents	0.35	0.11

10. Changes in controlled entities

Refer accompanying preliminary financial report

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 2020, the consolidated entity incurred a loss after income tax of \$1,527,289 (2019: \$2,267,112) and net cash outflows from operating activities of \$1,282,281 (2019: \$887,267). At 30 June 2020, the consolidated entity had \$866,830 (2018: \$1,901,250) 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, industrial hemp and/or new products eg Seagrapes;
- The receipt of debt funding; and/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 2020

Financial and operational summary for the year ended 30 June 2020

Stemcell United Limited (ASX:SCU) (“the Company”) (“Stemcell United”) is pleased to provide shareholders with this financial and operational summary for the year ended 30 June 2020 (“FY2020”). The Company made considerable progress with R&D initiatives and secured a number of collaboration agreements that will provide it with a platform for growth in the medium and long term.

FINANCIAL SUMMARY:

Revenue from ordinary activities was \$730,356, a decrease from the prior corresponding period (PCP) (FY2019: \$1,561,429). The Company recorded a net loss of \$1,527,289 down 33% on the FY2019 net loss of \$2,267,112. Stemcell United retained a cash balance of \$866,000 at 30 June 2020.

During the second half year of FY2020, various countries that the Company operates in went into a lockdown to stem the spread of COVID-19, which severely impacted the operations of the Company. All business activities in these countries were suspended during the respective lockdowns, which resulted in the overall drop in revenue.

To deal with the effects of COVID-19, Stemcell United implemented a number of cost cutting initiatives, which allowed the Company to retain a strong cash balance and significantly reduce its losses. The Company remains vigilant in closely managing its operating expenditure.

As restrictions associated with the COVID-19 pandemic continue to ease in the Company’s operating jurisdictions, Stemcell United is optimistic that day-to-day operations will return to normal and this will allow the Company to grow its revenue base in the coming months.

OPERATIONAL ACTIVITIES:

Despite the effects of COVID-19 on the Company’s sales, Stemcell United made considerable operational progress and secured a number of collaboration agreements on which it will build during the current period and beyond.

Memorandum of Understanding (“MOU”) with the University of Malaya (“UM”):

Stemcell United secured an MOU with the University of Malaya to establish a research collaboration, allowing the Company to potentially advance its traditional medicine research into plants such as hemp, dendrobium officinale and Daemonorops Draco Blume.

The collaboration will allow SCU and UM to promote knowledge sharing and expertise through academic and administrative staff exchanges, joint research activities, the exchange of reports and academic materials, and the sharing of other activities and programs in areas of mutual interest.

University of Malaya is the oldest and leading institution of higher education in Malaysia and this agreement provides considerable validation of SCU’s traditional medicine expertise and understanding.

Collaboration with China Tobacco subsidiary:

The Company signed a five-year agreement with Yunnan Hongyi Agriculture Development Co Ltd (“YHAD”), a wholly owned subsidiary of China Tobacco, to set up a plant stem cell research centre. SCU will also invest an initial CNY1m (approximately AUD200,000) for a 50% equity stake in the project, named the Hongyi Biotech and Innovation Centre (“HSBIC”).

HSBIC is focused on the research and commercialisation of the efficacy and uses of dendrobium as an anti-aging skincare ingredient in cosmetic products. The project will also leverage SCU’s knowledge of dendrobium stem cells to allow for further research into industrial hemp with an aim to produce high cannabidiol (CBD) output, and low-to-no tetrahydrocannabinol (THC) content.

Further, both parties will conduct research using tobacco plant stem cell as a potential live bioengineering bioreactor and medium for testing, growing and producing active ingredients for the pharmaceutical and healthcare industries.

The agreement will leverage SCU's established network in South East Asia and explore opportunities to work collaboratively with resina plant, for the commercial planting of vanilla and the establishment of joint ventures with the University of Malaya. The successful development of projects will serve as a model for the Company's collaborative research and development with other agritech and biotech companies in the future.

Collaboration with Singapore Temasek Polytechnic:

Stemcell United signed a two-year collaboration agreement with Temasek Polytechnic of Singapore to conduct a joint research programme on the application of plant stem cell technology to the cultivation and commercial farming of sea grapes in Singapore.

Temasek Polytechnic is the third polytechnic established by the Singapore government. Polytechnics are industry focused institutions of higher learning. Pursuant to the collaboration agreement, Temasek Polytechnic will assist the Company's R&D initiatives.

In addition to the collaboration, SCU personnel will also be giving lectures and seminars to Temasek Polytechnic students on topics relating to the project.

To progress work associated with the trial, Stemcell United has signed a rental agreement with the Singapore Food Agency for premises from where it will begin growing and researching sea grapes. Management looks forward to providing updates on the progress of this collaborative project when possible.

Collaboration with University of Science, Malaysia (USM):

SCU entered into a collaboration agreement with the University of Science, Malaysia to study the cultivation of seagrapes through the use of land-based and urban farming techniques.

The University of Science, Malaysia is amongst the oldest and most renowned institutions of higher learning in Northern Malaysia. USM has three campuses including the main campus on the island of Penang, a health focused campus in Kelantan and an engineering campus in Nibong Tebal. USM is one of the largest universities in terms of enrolments in Malaysia and has a large number of lecturers, making the organisation an ideal partner for Stemcell United.

The collaboration agreement and associated trials will run for 6 months and if successful, outline a shorter cultivation cycle for seagrape growing which could be highly scalable in dense urban settings. Stemcell United looks forward to providing ongoing updates as trials progress.

BOARD AND ADVISOR APPOINTMENTS:

Appointment of Paul Stephenson as a non-executive director:

Mr Stephenson was appointed to the Board as a non-executive director during March 2020. Mr Stephenson was a partner in the Sydney office of HWL Ebsworth ("HWLE") for 13 years, before retiring in 2017. He remains a consultant for HWLE and is also provides consulting services as a foreign (Australian) lawyer to Israeli law firm Afik & Co.

Paul has extensive experience in private and public equity fundraising, initial public offerings, backdoor listings and M&A. He also has considerable knowledge of the cannabis sector. Mr Stephenson will continue to leverage his network in Israel to seek potential business opportunities for the Company in the cannabis space. He also brings his corporate experience and connections in Israel to assist SCU in progressing its plant stem cell technologies.

Dr Kevin Yee Chang appointed as advisor:

Dr Chang is advising the Company on matters relating to traditional herbal medicine and business development in Australia.

Dr Chang is Dr Kevin Chang is an Australia accredited Traditional Chinese Medicines (“TCM”) practitioner and holds a PhD, Master and Bachelor degrees relating to the topics. Dr Chang has been practicing TCM, acupuncture and remedial massage for over 20 years in both China and Australia, specialising in using TCM for treatment of gastrointestinal disorders, skin disorders, osteoarthritis and rheumatoid arthritis.

He’s currently the President of the NSW Association of Chinese Medicine (www.nswacm.com.au) and is a lecturer on Chinese medicine at University of Sydney (Master course of herbal medicine), University of Western Sydney (Bachelor course of TCM) and Sydney Institute of TCM.

Appointment of Alan Dronkers to advise on cannabis operations:

SCU significantly strengthened its team following the appointment of Mr Alan Dronkers as a strategic advisor. Mr Dronkers is assisting the Company with the growth and development of its cannabis business. Specifically, he will advise on cannabis genetics for stem cell development, and commercialisation of hemp-based cosmetics and beauty products.

Mr Dronkers is currently Special Advisor to the Thailand Ministry of Agriculture and is cannabis industry Advisor to the Government of Laos. He is also an adjunct lecturer at the Rajabhat University of Chiang Mai, Thailand and the Mahanakorn University of Technology, Thailand. He is currently involved in the reintroduction of hemp into Thailand.

Alan is a member of Sensi Seeds and Hempflax Groups and was responsible for the first breeding programs of Sensi Seeds. He possesses an enormous wealth of knowledge about cannabis genetics and is also an expert in the history and use of the plant, having helped to reintroduce the use of hemp into Holland.

Alan is an active proponent in the promotion of hemp as a mainstream plant for different industry applications. He is also the developer of a cannabis strain named ‘Jack Herer’ which is one of the all-time most popular cannabis strains and used extensively for medicinal purposes.

As a strategic advisor, Mr Dronkers is assisting the Company in developing and commercialising its hemp-based product offerings for the Chinese market. This is being undertaken through the Company’s interest in Huafeng Industrial Hemp Co., Ltd (HFIH), which is a holder of a hemp growing licence, granted by the Chinese government. Stemcell United invested in HFIH in May 2019 (FY2019), acquiring a 51% stake.

- End -

Statement of Profit or Loss and Other Comprehensive Income for the Year ended 30 June 2020

	2020 \$	2019 \$
Revenue	730,356	1,561,429
Cost of Sales	(593,326)	(1,446,783)
Gross profit	137,030	114,646
Other revenue and income	10,346	28,564
Staff costs and directors' fees	(713,004)	(880,066)
Professional fees	(326,020)	(297,355)
Depreciation and amortisation	(19,448)	(18,327)
Impairment of inventory and receivables	(94,304)	-
Impairment of goodwill	-	(725,790)
Marketing and travel	(271,197)	(205,939)
Administrative expenses	(250,692)	(282,845)
Profit/(Loss) before income tax expense	(1,527,289)	(2,267,112)
Income tax expense	-	-
Profit/(Loss) for the year	(1,527,289)	(2,267,112)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Translation of foreign subsidiary	41,705	63,229
Total comprehensive income (loss) for the year	(1,485,584)	(2,203,883)
(Loss) attributable to:		
Owners	(1,432,143)	(2,265,790)
Non-controlling interest	(95,146)	(1,322)
	(1,527,289)	(2,267,112)
Total comprehensive (loss) attributable to:		
Owners	(1,390,591)	(2,202,561)
Non-controlling interest	(94,993)	(1,322)
	(1,485,584)	(2,203,883)
Earnings per share		
Basic (cents per share)	8	(0.22) (0.42)
Diluted (cents per share)	8	(0.22) (0.42)

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 2020

	Note	2020 \$	2019 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		866,830	1,901,250
Trade and other receivables	2	11,766	334,688
Inventory	3	1	41,225
TOTAL CURRENT ASSETS		878,597	2,277,163
NON CURRENT ASSETS			
Plant and equipment	4	133,975	154,290
Intangible assets	11	1	1
TOTAL NON CURRENT ASSETS		133,976	154,291
TOTAL ASSETS		1,012,573	2,431,454
LIABILITIES			
Trade and other payables	5	311,491	349,941
Income tax payable		-	-
TOTAL CURRENT LIABILITIES		311,491	349,941
TOTAL LIABILITIES		311,491	349,941
NET ASSETS		701,082	2,081,513
EQUITY			
Contributed equity	6	71,371,829	71,371,829
Option reserve	7	588,600	483,600
Other equity	13	-	-
Retained earnings		(71,657,907)	(70,225,764)
Foreign currency translation reserve		100,752	59,047
EQUITY ATTRIBUTABLE TO SHAREHOLDERS		403,274	1,688,712
Non-controlling interest		297,808	392,801
TOTAL EQUITY		701,082	2,081,513

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

Statement of Changes in Equity for the year ended 30 June 2020

	<-----Attributable to owners of Stemcell United Limited ----->						
	Contributed Equity	Option reserve	Other Equity	Retained Earnings	Foreign currency translation reserve	Non- controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$
Balance at 30 June 2018	68,966,829	148,000	50,000	(67,959,974)	(4,182)	-	1,200,673
<i>Transactions with equity holders in their own capacity</i>							
Placement issue	2,000,000	-	-	-	-	-	2,000,000
Capital raising costs	(150,000)	-	-	-	-	-	(150,000)
Fair value of shares issued to advisors	50,000	-	(50,000)	-	-	-	-
Fair value of shares issued to acquired subsidiary	357,000	-	-	-	-	-	357,000
Fair value of options issued to directors	-	483,600	-	-	-	-	483,600
Expiry of options	148,000	(148,000)	-	-	-	-	-
	2,405,000	335,600	(50,000)	-	-	-	2,690,600
Non-controlling interest	-	-	-	-	-	394,123	394,123
Total comprehensive income/(loss)	-	-	-	(2,265,790)	63,229	(1,322)	(2,203,883)
Balance at 30 June 2019	71,371,829	483,600	-	(70,225,764)	59,047	392,801	2,081,513
<i>Transactions with equity holders in their own capacity</i>							
Fair value of options issued to directors	-	105,000	-	-	-	-	105,000
	-	105,000	-	-	-	-	105,000
Non-controlling interest	-	-	-	-	-	153	153
Total comprehensive income/(loss)	-	-	-	(1,432,143)	41,705	(95,146)	(1,485,584)
Balance at 30 June 2020	71,371,829	588,600	-	(71,657,907)	100,752	297,808	701,082

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 2020

	2020 \$	2019 \$
CASH FLOWS RELATING TO OPERATING ACTIVITIES		
Receipts from customers	801,416	1,476,306
Payment to suppliers and employees	(2,083,725)	(2,363,999)
Interest income	28	426
Total cash used in operating activities	(1,282,281)	(887,267)
CASH FLOWS RELATING TO INVESTING ACTIVITIES		
Cash used in acquisition of subsidiary, net of cash acquired	-	(202,361)
Non-controlling interest contribution of capital	153	-
Total cash used in investing activities	153	(202,361)
CASH FLOWS RELATING TO FINANCING ACTIVITIES		
Proceeds from issue of shares	-	2,000,000
Payment of share issue costs	-	(150,000)
Repayment of loans	208,000	-
Total cash from financing activities	208,000	1,850,000
Net increase in cash and cash equivalents	(1,074,128)	760,372
Cash and cash equivalents at beginning of financial year	1,901,250	1,086,365
Foreign currency translation differences	39,708	54,513
Cash and cash equivalents at end of financial year	866,830	1,901,250

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

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

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 2019 annual financial report and the interim financial report for the half year ended 31 December 2019.

NOTE 2: TRADE AND OTHER RECEIVABLES

	2020 \$	2019 \$
CURRENT		
Trade receivables	-	109,589
Other receivables	11,766	*225,099
	11,766	334,688

*Included in other receivable of year ended 30 June 2019 is an amount of \$208,000 (RMB1,000,000) held in trust by a director of the Company's subsidiary, Yunnan Huafang Industrial Hemp Co Ltd ("HFIH") in China while waiting for the opening of the subsidiary's bank account in China. This amount was deposited into HFIH's bank account on 23 August 2019.

NOTE 3: INVENTORY

	2020 \$	2019 \$
CURRENT		
Raw Materials	-	8,303
Finished goods	1	32,922
	1	41,225

NOTE 4: PLANT AND EQUIPMENT

	Office equipment \$	Machines \$	TOTAL \$
Cost			
At 1 July 2018	-	177,721	177,721
Additions	3,016	-	3,016
Foreign exchange translation	-	11,107	11,107
At 30 June 2019	3,016	188,828	191,844
Foreign exchange translation	(29)	(1,791)	(1,820)
At 30 June 2020	2,987	187,037	190,024
Accumulated depreciation			
At 1 July 2018	-	14,876	14,876
Depreciation	2,865	19,813	22,678
At 30 June 2019	2,865	34,689	37,554
Depreciation	121	18,374	18,495
At 30 June 2020	2,986	53,063	56,049
Carrying amount			
At 30 June 2019	151	154,139	154,290
At 30 June 2020	1	133,974	133,975

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

NOTE 5: TRADE AND OTHER PAYABLES

	2020 \$	2019 \$
CURRENT		
Trade payables	8,816	93,365
Other payables	70,140	79,917
Accrued expenses	215,213	159,171
GST payable	17,322	17,488
	311,491	349,941

NOTE 6: CONTRIBUTED EQUITY

	2019 \$	2019 \$
Issued and fully paid ordinary shares	71,371,829	71,371,829
Movements in ordinary shares	Number of shares	A\$
At 1 July 2018	513,345,206	68,966,829
Placement issues	105,263,158	2,000,000
Fund raising costs	-	(150,000)
Issue of shares to advisors	2,000,000	50,000
Shares issued to acquire subsidiary	21,000,000	357,000
Expiry of options	-	148,000
At 30 June 2019 and 1 July 2019	641,608,364	71,371,829
At 30 June 2020	641,608,364	71,371,829

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.

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

NOTE 7: OPTION RESERVE

	2019 \$	2019 \$
Option Reserve	588,600	483,600
Movements in Option Reserve	Number of options	\$
At 1 July 2018	2,000,000	148,000
Expiry of option*	(2,000,000)	(148,000)
Issue of director options^	18,600,000	483,600
At 30 June 2019 and 1 July 2019	18,600,000	483,600
Issue of director options~	10,500,000	105,000
At 30 June 2020	29,100,000	588,600

*On 14 September 2018, the options issued to nominees of APP Securities Pty Ltd as lead manager of the prospectus fund raising expired.

^On 5 December 2018, 18,600,000 options were issued to directors as approved at the AGM held on 30 November 2018. The assessed fair value at grant date of options issued to directors was A\$483,600. 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\$0.01
- (b) grant date: 05 December 2018
- (c) expiry date: 5 Dec 2028
- (d) share price at grant date: A\$0.027
- (e) expected price volatility of the Company's shares: 104%
- (f) risk-free interest rate: 3.5%

~On 16 December 2019, 10,500,000 options were issued to directors as approved at the AGM held on 30 November 2019. The assessed fair value at grant date of options issued to directors was A\$105,000. 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\$0.01
- (b) grant date: 16 December 2019
- (c) expiry date: 16 Dec 2024
- (d) share price at grant date: A\$0.014
- (e) expected price volatility of the Company's shares: 81%
- (f) risk-free interest rate: 2.75%

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

NOTE 8: EARNINGS PER SHARE (EPS)

	2020 \$	2019 \$
(a) Reconciliation of Earnings to Net Profit or Loss		
Net loss for the year	(1,527,289)	(2,267,112)
Earnings attributable to owners of Stemcell United Limited used in the calculation of basic EPS	(1,432,143)	(2,265,790)
Earnings attributable to owners of Stemcell United Limited used in the calculation of dilutive EPS	(1,432,143)	(2,265,790)
	Number	Number
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	641,608,364	535,733,238
Weighted average number of options*	23,432,877	10,548,493
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	*641,608,364	*535,733,238

*Options are considered anti-dilutive as at 30 June 2020 and 30 June 2019 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.

The geographical segment information of the group is as follows:

2020	Australia \$	Singapore \$	Greater China \$	Malaysia \$	Total \$
Revenue	-	729,448	908	-	730,356
Profit / (Loss)	(616,917)	(655,664)	(194,768)	(59,940)	(1,527,289)
Total assets	185,415	289,362	527,804	9,992	1,012,573
Total liabilities	(134,452)	(166,218)	(5,233)	(5,589)	(311,491)
2019	Australia \$	Singapore \$	Greater China \$	Total \$	
Revenue	-	1,561,111	318	1,561,429	
Profit / (Loss)	(1,132,198)	(1,132,075)	(2,839)	(2,267,112)	
Total assets	177,853	430,216	1,823,385	2,431,454	
Total liabilities	(115,023)	(234,297)	(621)	(349,941)	

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

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: INTANGIBLE ASSETS

	2020	2019
	\$	\$
Balance at beginning of the year	1	1
Acquired during the year (refer note 12)	-	725,790
Impairment of intangible assets during the year	-	(725,790)
Amortisation during the period	-	-
Balance at end of the year	1	1

The Intangible Assets were fully impaired in the year ended 30 June 2018 as the actual results for the year ended 30 June 2018 were below those forecasted. There was no significant improvement in the results for the year ended 30 June 2019. 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.

The goodwill acquired during the year of \$725,790 is fully impaired in year ended 30 June 2019 as the Company is unable to quantify the synergy from having the industrial hemp licence in China.

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

NOTE 12: ACQUISITION OF SUBSIDIARY

On 20 May 2019, the Group acquired 51% of the issued shares in Yunnan Huafang Industrial Hemp Co. Ltd (“HFIH”), an industrial hemp company incorporated in the People’s Republic of China, for a consideration of \$1,136,000. The acquisition will allow the Group to expand and develop its industrial hemp business in China.

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

Purchase consideration	2019
	\$
Cash paid	779,000
Fair value of shares paid	357,000
Total consideration	1,136,000

Fair value of assets and liabilities acquired	2019
	\$
Cash and cash equivalents	2,639
Receivables	790,830
Inventory	11,327
Plant and equipment	149
Payables	(612)
Net identifiable assets acquired	804,333
Less: Non-controlling interest	(394,123)
Less: Goodwill	725,790
	1,136,000

Cashflow effect of acquisition	2019
	\$
Cash paid	205,000
Cash acquired	(2,639)
Cash paid for acquisition of subsidiary in current year, net of cash acquired	202,361
Cash to be paid by SCU to HFIH	574,000
Total cash paid for acquisition of subsidiary, net of cash acquired	776,361

Goodwill

Goodwill arises due to payment in excess of the fair value of assets acquired, with expectation of synergy from having the licence to operate in China’s tightly controlled industrial hemp market. The goodwill is fully impaired at balance date as the Company is unable to quantify the synergy from having the industrial hemp licence in China.

Acquisition related costs

There are no direct acquisition related costs.

Contingent consideration

There are no contingent consideration arrangements.

Non-controlling interest

The Group recognises non-controlling interests in an acquired entity at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Revenue and profit contribution

The acquired entity contributed \$318 revenue and a net loss of \$2,698 to the Group for the period from 1 June 2019 to 30 June 2019.

If the acquisition had occurred on 1 July 2018, the acquired entity would have contributed \$4,567 revenue and a net loss of \$(93,275) to the Group.

Notes to the Financial Statements for the Financial Year Ended 30 June 2020

NOTE 13: OTHER EQUITY

	2019 \$	2019 \$
Balance at beginning of the year	-	50,000
Issue of shares to advisors	-	(50,000)^
Balance at end of the year	-	-

^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. The shares were issued during the year ended 30 June 2019.

NOTE 14: COVID 19

During March 2020, COVID-19 was declared a pandemic by the World Health Organisation and has had a significant impact on domestic and global markets and economies. The impact of the COVID-19 pandemic which continues to evolve on a daily basis has significantly affected market volatility, exchange rates, supply chains, consumer demand, liquidity and credit conditions and unemployment rates and in a bid to curtail the spread of COVID-19, travel, trade and social restrictive measures have been imposed by the Australian Government.

NOTE 15: COMPANY DETAILS

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