United Networks Limited

ABN 60 607 921 246

Appendix 4E - Preliminary Final Report - 30 June 2018

United Networks Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	United Networks Limited
ABN:	60 607 921 246
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

2. Results for announcement to the market

				$
Revenues from ordinary activities	down	57.2%	to	2,668,385
Loss from ordinary activities after tax attributable to the owners of United Networks Limited	up	1,757.8%	to	(19,268,609)
Loss for the year attributable to the owners of United Networks Limited	up	1,757.8%	to	(19,268,609)

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

Comments
The loss for the consolidated entity after providing for income tax amounted to $19,268,609 (30 June 2017: $1,037,177).

The financial year ended 30 June 2018 was a year in which United Networks launched the new value added Insuretech solutions SOS alerts and Flight Delay Insurance. The key activities included:

- Completion and release of the Global SOS alerts in January 2018, embedded in the United Networks App and launched in the Chubb Connect App in January 2018.
- Completion and subsequent release in August 2018, of new Insuretech solution Flight Delay Insurance in conjunction with Chubb and Swiss-Re.
- Signing of global insurance company AIG to provide global Wi-Fi and SOS alerts to customers, launched in 2018.
- Overhead reductions in excess of $1.2 million were implemented in the last 2 quarters of the financial year 2018 with further reductions implemented to reduce management costs and rent in July and August of 2018 resulting in total overhead reduction of over $1.5 million on an annualised basis.
- Ongoing investment and development of the Insuretech solutions.

The significant proportion of the loss incurred was a result of the following items:

- Impairment of goodwill of $16,016,577, non-cash expense, resulting from the cancellation of the Covermore contract in the 2018 financial year, and decrease in sales volume in the Global SIM business. Despite the impairment the Global Sim business continues to generate revenues.
- Derecognition of the net deferred tax asset of $418,942.
- Cancellation of the Covermore contract and decrease in sales volume in the related business.

Revenue for the period is down 57.2% on the previous year as a result of the following items:

- Decrease in the volume of sales, in the lead up to the cancellation of the Covermore contract. Revenue from this contract for the year ended 30 June 2018 was $893,325 (2017: $2,699,845).
- Deferral of the 2018 research and development grant to the 2019 financial year. The consolidated entity recognised a research and development grant of $600,000 in the 2017 financial year. The 2018 research and development grant will be recognised when it is paid in the 2019 financial year.
- Delays in the launch of new partners and release of the new Insuretech product Flight Delay Insurance, released in August 2018.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.74	3.42

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. Going Concern

For the year ended 30 June 2018 the consolidated entity incurred a loss after income tax of $19,268,609 (2017: $1,037,177) and net cash outflows from operating activities of $1,277,975 (2017: $305,522). The net operating loss after tax for the financial year ended 30 June 2018, excluding the impairment of goodwill of $16,016,577 and the write back of the net deferred tax asset of $418,942, was $2,833,090. The recurring operating historical losses and net cash outflows from operating activities give rise to uncertainty that may cast doubt about the ability of the consolidated entity to continue as a going concern.

The company has recently announced a new key partner contract and reduced overheads to align with the current business revenue and the new contract announced. Overhead reductions in excess of $1.2 million were implemented in the last two quarters of the 2018 financial year, with further reductions implemented to wages and rent costs in July and August of 2018 resulting in a total overhead reduction of over $1.5 million.

The increase in the operating loss before impairment of goodwill and write back of the net deferred tax asset, was significantly due to the cancellation of the Covermore contract in the 2018 financial year. Despite the impairment, the global sim product continues to generate revenues and the business has launched new global partners who have launched the Wi-Fi and Insuretech solutions.

Refer to Note 1 to the condensed consolidated financial statements for the Directors' mitigation of going concern uncertainty.

10. Audit statement

The condensed consolidated preliminary financial report is not audited.

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11. Attachments

The Appendix 4E- Condensed Consolidated Preliminary Financial Report for the year ended 30 June 2018 is attached

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12. Signed

Signed ____________________ Date: 27 August 2018

Nicholas Ghattas
Chief Executive Officer and Director
Sydney

United Networks Limited
Condensed consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	2018 $	2017 $
Revenue	4	2,668,385	6,236,046
Other income		-	12,733
Expenses			
Cost of sales		(1,775,523)	(3,537,527)
Marketing		(50,599)	(71,451)
Occupancy		(11,926)	(55,764)
Administration		(2,385,159)	(2,199,018)
Impairment of goodwill		(16,016,577)	-
Other expenses		(1,226,499)	(1,376,068)
Finance costs		(51,769)	(106,050)
Loss before income tax (expense)/benefit		(18,849,667)	(1,097,099)
Income tax (expense)/benefit		(418,942)	59,922
Loss after income tax (expense)/benefit for the year attributable to the owners of United Networks Limited		(19,268,609)	(1,037,177)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of United Networks Limited		(19,268,609)	(1,037,177)
		Cents	**Cents**
Basic earnings per share	13	(15.31)	(0.97)
Diluted earnings per share	13	(15.31)	(0.97)

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

United Networks Limited
Condensed consolidated statement of financial position
As at 30 June 2018

	Note	2018 $	2017 $
Assets			
Current assets			
Cash and cash equivalents	6	1,355,892	4,214,949
Trade and other receivables		372,898	1,896,706
Inventories		90,900	131,975
Other		103,700	59,322
Total current assets		1,923,390	6,302,952
Non-current assets			
Property, plant and equipment	7	361,386	506,047
Intangibles	8	1,981,955	17,876,073
Deferred tax		-	762,620
Total non-current assets		2,343,341	19,144,740
Total assets		4,266,731	25,447,692
Liabilities			
Current liabilities			
Trade and other payables		616,484	1,573,503
Borrowings	9	505,704	992,223
Provisions		147,815	129,051
Total current liabilities		1,270,003	2,694,777
Non-current liabilities			
Borrowings	10	87,188	231,088
Deferred tax		-	343,678
Total non-current liabilities		87,188	574,766
Total liabilities		1,357,191	3,269,543
Net assets		2,909,540	22,178,149
Equity			
Issued capital		24,278,800	24,278,800
Accumulated losses		(21,369,260)	(2,100,651)
Total equity		2,909,540	22,178,149

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

United Networks Limited
Condensed consolidated statement of changes in equity
For the year ended 30 June 2018

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2016	17,777,025	(1,063,474)	16,713,551
Loss after income tax benefit for the year	-	(1,037,177)	(1,037,177)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(1,037,177)	(1,037,177)
Transactions with owners in their capacity as owners:			
Contributions of equity, net of transaction costs	6,501,775	-	6,501,775
Balance at 30 June 2017	24,278,800	(2,100,651)	22,178,149

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2017	24,278,800	(2,100,651)	22,178,149
Loss after income tax expense for the year	-	(19,268,609)	(19,268,609)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(19,268,609)	(19,268,609)
Balance at 30 June 2018	24,278,800	(21,369,260)	2,909,540

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

United Networks Limited
Condensed consolidated statement of cash flows
For the year ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		3,506,670	6,481,632
Payments to suppliers and employees (inclusive of GST)		(5,275,530)	(6,710,418)
		(1,768,860)	(228,786)
R&D tax incentive		519,033	-
Interest received		42,376	59,473
Interest and other finance costs paid		(70,524)	(136,209)
Net cash used in operating activities		(1,277,975)	(305,522)
Cash flows from investing activities			
Payments for property, plant and equipment	7	(10,385)	(5,466)
Payments for intangibles	8	(892,499)	(961,393)
Loans from/(to) related and other parties		1,905	(40,084)
Proceeds from disposal of investments		-	21,029
Proceeds from disposal of property, plant and equipment		-	13,519
Net cash used in investing activities		(900,979)	(972,395)
Cash flows from financing activities			
Proceeds from issue of shares		-	7,133,500
Proceeds from borrowings		-	144,000
Share issue transaction costs and other transaction costs attributable to the listing		-	(1,079,778)
Repayment of borrowings		(680,103)	(1,214,153)
Net cash from/(used in) financing activities		(680,103)	4,983,569
Net increase/(decrease) in cash and cash equivalents		(2,859,057)	3,705,652
Cash and cash equivalents at the beginning of the financial year		4,214,949	509,297
Cash and cash equivalents at the end of the financial year	6	1,355,892	4,214,949

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

Note 1. Statement of significant accounting policies

Statement of compliance
This preliminary final report (the Report) is to be read in conjunction with any public announcements made by United Networks Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Australian Securities Exchange Listing Rules.

The preliminary final report has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board and the Corporations Act 2001.

The Report is presented in Australian dollars, which is the functional currency of United Networks Limited and its controlled entities and has been prepared on the basis of historical cost except in accordance with relevant accounting policies where assets and liabilities are stated at their fair values.

Significant accounting policies
The principal accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year.

Going concern
For the year ended 30 June 2018 the consolidated entity incurred a loss after income tax of $19,268,609 (2017: $1,037,177) and net cash outflows from operating activities of $1,277,975 (2017: $305,522). The net operating loss after tax for the financial year ended 30 June 2018, excluding the impairment of goodwill of $16,016,577 and the write back of the net deferred tax asset of $418,942, was $2,833,090. The recurring operating historical losses and net cash outflows from operating activities give rise to uncertainty that may cast doubt about the ability of the consolidated entity to continue as a going concern.

The company has recently announced a new key partner contract and reduced overheads to align with the current business revenue and new contract announced. Overhead reductions in excess of $1.2 million were implemented in the last two quarters of the 2018 financial year with further reductions implemented to wages and rent costs in July and August of 2018 resulting in a total overhead reduction of over $1.5 million.

The increase in the operating loss before impairment of goodwill and write back of the net deferred tax asset, was significantly due to the cancellation of the Covermore contract in the 2018 financial year, decrease in sales volume in the Global SIM business. Despite the impairment, the global sim product continues to generate revenues and the business has launched new global partners who have launched the Wi-Fi and Insuretech solutions.

The ability of the consolidated entity to maintain continuity of normal business activities and to pay its debts as and when they fall due is dependent on the consolidated entity having sufficient working capital to fund its activities.

The Directors have concluded that any uncertainty regarding going concern is mitigated by the following:
- The company has prepared a consolidated income and expenditure budget and cash flow budget for the 2019 financial year, based on reasonable assumptions, and considered extended forecasts for a period of not less than 12 months from the date of signature of the audit report on this financial report to the expected date of signature on the audit report on the financial report for the year ending 30 June 2019. The Directors are budgeting for a modest surplus for the 30 June 2019 financial year.
- The consolidated entity has restructured a number of its costs to ensure reductions are achieved where possible without compromising service delivery.
- The new partner contract announced in August 2018 and the release of the new Insuretech products will contribute to sales in the 2019 financial year.

Based on the above, the Directors are of the opinion that at the date of signature of the financial report there are reasonable and supportable grounds to believe that the consolidated entity will be able to achieve a combination of the above in order to meet its liabilities from its assets in the ordinary course of business, for a period of not less than 12 months from the date of signature of the audit report on this financial report to the date of signature of the audit report on the financial report for the year ending 30 June 2019, and has accordingly prepared the financial report on a going concern basis.

Note 1. Statement of significant accounting policies (continued)

Should the consolidated entity be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the consolidated entity be unable to continue as a going concern and meet its debts as and when they fall due.

Comparatives
Where necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill impairment
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. For information relating to the value-in-use calculations refer to note 8.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets
The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 3. Operating segments

Identification of reportable operating segments
Operating segments are identified based on separate financial information which is regularly reviewed by the Board of Directors, representing the consolidated entity's Chief Operating Decision Makers (CODM), in assessing performance and determining the allocation of resources.

The consolidated entity operates in primarily one geographical segment, namely Australia. The primary business segment is telecommunications namely voice, data and value added services. As the consolidated entity operates in only one segment, the consolidated results are also its segment results.

Note 4. Revenue

	2018 $	2017 $
Sales revenue		
Sale of goods	59,104	336,022
Services	2,558,630	4,806,478
	2,617,734	5,142,500
Other revenue		
Interest	42,376	59,473
R&D incentive grant	-	1,019,502
Other revenue	8,275	14,571
	50,651	1,093,546
Revenue	2,668,385	6,236,046

Note 5. Expenses

A review of expenses shows that the following expenses increased/ decreased over the period from the previous year in the following key areas.

Impairment of goodwill

- Goodwill of $16,016,577 has been fully impaired, principally due to the cancellation of the Covermore contract in the 2018 financial year, decrease in sales volume in the Global SIM business, and a change in the consolidated entity's business model.

Cost of sales

- Decreased by $1,762,004 principally due to the cancellation of the Covermore contract in the 2018 financial year, decrease in sales volume in the Global SIM business, and a change in the consolidated entity's business model.

Administration

- Salaries and wages increased by $48,598 as a result of the full year impact of new appointments during the 2017 financial year. Salaries and wages savings of $500,000 have been implemented for the 2019 financial year.
- An increase of $69,036 relating to full year compliance and listing costs.
- Restructuring in the third and fourth quarter of the 2018 financial year, has resulted in reduction of the following costs by the amounts indicated.
  - Occupancy $43,478
  - Travel $54,590
  - Marketing $25,612

All other expenses remained comparable or in line with the previous year. The company implemented overhead reductions in excess of $1.2 million in the last two quarters of the financial year 2018, with further reductions implemented to management costs and rent in July and August of 2018 resulting in total overhead reduction of over $1.5 million.

Note 6. Current assets - cash and cash equivalents

	2018 $	2017 $
Cash on hand	455	99
Cash at bank	780,252	158,236
Cash on deposit	575,185	4,056,614
	1,355,892	4,214,949

United Networks Limited
Notes to the condensed consolidated financial statements
30 June 2018

Note 7. Non-current assets - property, plant and equipment

	2018 $	2017 $
Plant and equipment - at cost	56,999	54,630
Less: Accumulated depreciation	(25,807)	(18,238)
	31,192	36,392
Furniture, fixtures and fittings - at cost	45,746	45,746
Less: Accumulated depreciation	(7,893)	(6,254)
	37,853	39,492
Computer equipment - at cost	77,107	69,091
Less: Accumulated depreciation	(61,143)	(50,560)
	15,964	18,531
Right-of-use assets - property leases	739,094	689,410
Less: Accumulated depreciation	(462,717)	(277,778)
	276,377	411,632
	361,386	506,047

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

	Plant and equipment $	Furniture, fixtures and fittings $	Computer equipment $	Office equipment $	Right-of-use assets - property leases $	Total $
Balance at 1 July 2016	34,870	41,372	31,862	1,317	616,606	726,027
Additions	4,221	-	1,245	-	140,387	145,853
Disposals	(516)	-	(3,871)	-	-	(4,387)
Right-of-use asset derecognised	-	-	-	-	(189,873)	(189,873)
Transfers in/(out)	1,317	-	-	(1,317)	-	-
Depreciation expense	(3,500)	(1,880)	(10,705)	-	(155,488)	(171,573)
Balance at 30 June 2017	36,392	39,492	18,531	-	411,632	506,047
Additions	2,369	-	8,016	-	49,684	60,069
Depreciation expense	(7,569)	(1,639)	(10,583)	-	(184,939)	(204,730)
Balance at 30 June 2018	31,192	37,853	15,964	-	276,377	361,386

Note 8. Non-current assets - intangibles

	2018 $	2017 $
Goodwill - at cost	16,016,577	16,016,577
Less: Impairment	(16,016,577)	-
	-	16,016,577
Patents, trademarks and other rights - at cost	6,413	6,413
Web development - at cost	1,388,617	1,074,445
Less: Accumulated amortisation	(602,002)	(298,210)
	786,615	776,235
Software - at cost	2,518,492	1,940,165
Less: Accumulated amortisation	(1,329,565)	(863,317)
	1,188,927	1,076,848
	1,981,955	17,876,073

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

	Goodwill $	Patents, trademarks and other rights $	Web development costs $	Software $	Total $
Balance at 1 July 2016	16,016,577	6,413	691,842	784,893	17,499,725
Additions	-	-	284,382	661,848	946,230
Amortisation expense	-	-	(199,989)	(369,893)	(569,882)
Balance at 30 June 2017	16,016,577	6,413	776,235	1,076,848	17,876,073
Additions	-	-	314,172	578,327	892,499
Impairment of assets	(16,016,577)	-	-	-	(16,016,577)
Amortisation expense	-	-	(303,792)	(466,248)	(770,040)
Balance at 30 June 2018	-	6,413	786,615	1,188,927	1,981,955

Impairment testing
The company undertook an assessment of the recoverable amount of goodwill at 30 June 2018, and as a result of this assessment, the Directors have determined to fully impair the goodwill amount of $16,016,577. The reasons for impairment of goodwill are principally due to the cancellation of the Covermore contract in the 2018 financial year, decrease in sales volume in the Global SIM business.

Note 8. Non-current assets - intangibles (continued)

The discount rate of XX% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk-free rate and the volatility of the share price relative to market movements.

Management believes the 2019 revenue projection and X% increases through to 2023 is achievable and justified, based on the projected growth of new products and partners, two of which have been signed on since year-end and the roll-out is actively in place through out Asia-Pacific.

The budgeted gross margin is based on past performance and management's expectations for the future.

Operating expenses do not vary significantly with revenue. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost saving measures.

The long-term growth rate is used to extrapolate cash flows beyond the 5-year forecast and is based on external forecasts.

Based on the above, the recoverable amount of the goodwill exceeded the carrying amount by $XX (2017: $2,258,045).

Note 9. Current liabilities - borrowings

	2018 $	2017 $
Promissory note - related party	315,454	811,679
Lease liability	190,250	180,544
	505,704	992,223

Note 10. Non-current liabilities - borrowings

	2018 $	2017 $
Lease liability	87,188	231,088

Note 11. Equity - dividends

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

Note 12. Events after the reporting period

No matter or circumstance has arisen since 30 June 2018 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.

Note 13. Earnings per share

	2018 $	2017 $
Loss after income tax attributable to the owners of United Networks Limited	(19,268,609)	(1,037,177)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	125,824,949	106,769,709
Weighted average number of ordinary shares used in calculating diluted earnings per share	125,824,949	106,769,709
	Cents	**Cents**
Basic earnings per share	(15.31)	(0.97)
Diluted earnings per share	(15.31)	(0.97)