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Stemcell United Limited

(Formerly On Q Group Limited)

ACN 009 104 330

2016 ANNUAL REPORT

For the year ended 30 June 2016

Stemcell United Limited (formerly On Q Group Limited)

DIRECTORS' REPORT

The directors present their report, together with the financial statements, of Stemcell United Limited ("the Company") and the entities it controlled (together referred to as "the Group") for the year ended 30 June 2016.

Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

Current directors

Khoo Gee Choo, Jamie

Ms Khoo has a Master of Business Studies and is a member of the Institute of Singapore Chartered Accountants. Ms Khoo has over 20 years experience in accounting and corporate finance and extensive experience in company funding, investment evaluation, due diligence and structuring. Ms Khoo is also director of ASX listed Lionhub Group Ltd and Bunuru Corporation Limited.

Chow-Yee Koh

Mr Koh has a Bachelor of Commerce and is a fellowship member of the Association of Chartered Certified Accountants (UK). Mr Koh has over 17 years experience in accounting, auditing and corporate finance. Mr Koh is also the Company's joint company secretary and is a company secretary of ASX listed Sunbridge Group Limited. Mr Koh is also a director of ASX listed Bunuru Corporation Limited.

Paul Sun (resigned 5 October 2015)

Mr Sun is a practicing CPA and Principal of Sun Secure Investment & Consulting Pty Ltd and Sun Secure Accounting & Business Services. He holds a B.E. (Civil Engineering) from the University of Newcastle, a Master of Professional Accounting from the University of Western Sydney, a Graduate Diploma of Applied Finance and Investment from the Australian Securities Institute and a post graduate diploma in Strategic Business Management from the Australian Graduate School of Business Management UNSW. Prior to establishing his own practice, Mr Sun held a number of financial management positions with industrial companies in New South Wales. Mr Sun has no directorship on other listed companies.

Gu Huan Qing, Philip (appointed 14 September 2015)

Mr Gu is the inventor of SCU's Dendrobium Officinale orchid plant stem cell products. He holds a Master of Science degree in Biology, majoring in plant physiology from South China Teachers University (renamed South China Normal University) and a Diploma in Business Management from Australian Academy of Business Studies. Mr. Gu has more than 20 years experience in the food and agricultural technology industry and previously served as a consultant to Food and Agriculture Organization (FAO) of the United Nations before launching his entrepreneurial journey in the 1990s. Mr Gu specialises in the production of canned abalone, bottled bird's nest, cordyceps extract and ginseng extract. His in-depth industry knowledge and well-established business network has firm foundations in the manufacturing industry.

Qingjian Wang (appointed 29 March 2016, resigned 4 July 2016)

Mr Wang is an experienced fund manager and international commercial lawyer, with expertise in assets management, cross-border mergers and acquisitions, fund formation and operation, transaction execution, corporate governance and legal compliance. Mr. Wang has practiced law in Singapore for almost 10 years under O'Melveny & Myers LLP and Dechert LLP, with focus on PE fund formation, fund secondary transactions, portfolio investments and fund regulatory compliance. He also has extensive experience in capital markets and has advised on a number of public offerings in the United States, Hong Kong, Singapore and Indonesia. Mr. Wang holds a LLM degree from University of California Berkley and a LLB degree from Shanghai Fudan University. Mr. Wang is a qualified lawyer in New York (USA) and China.

Stemcell United Limited (formerly On Q Group Limited)

Company Secretary

Chow Yee Koh

Elizabeth Hunt (resigned 2 March 2016)

Ms Hunt has over fifteen years' corporate and accounting experience which includes IPO management, governance & risk, company secretarial matters, ASX listing requirements, ASIC and other statutory reporting requirements, and financial accounting and reporting. Ms Hunt holds a BSc degree in Sustainable Development, has completed a Master of Accounting, the Governance Institute of Australia Certificate in Governance and Risk Management, and is a Graduate of the Australian Institute of Company Directors.

Principal activities

The Company is the 100% holding company of Stemcell United Pte Ltd, a Singapore biotechnology company which focuses on using stem cell technology to grow and extract plant essence for traditional medicine.

Review of Operations

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. Due to a change in regulation in China, the resina product is no longer able to be sold in its current state. 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 company also impaired its plant and machinery by \$121,468 and inventory by \$937,875.

Significant changes in state of affairs

Other than that as was mentioned in the "Review of Operations" above, there are no significant changes in the Company's state of affairs occurred during the financial year.

Events subsequent to the end of the reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company.

Future development, prospects and business strategies

The focus of the company will still be on traditional medicine. Due to a change in regulation, the resina business will be wound down. Effort will be on commercialising the dendrobium IP while also looking at other traditional medicine, like cannabis.

Environmental issues

The Group is not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

Stemcell United Limited (formerly On Q Group Limited)

Dividends paid, recommended or declared

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Options

The terms and conditions of each grant of options affecting the current or a future reporting period are as follows:

| Options | Number |
|--|------------------|
| Options issued to lead manager on successful completion of Offer, exercised within 3 years from date of issue (14 September 2015) at \$0.20 per option | 2,000,000 |
| TOTAL | 2,000,000 |

Meetings of directors

The number of Directors Meetings held during the year, and the number of meetings attended by each Director is as follows:

| Directors' Name | Board Meetings | |
|----------------------|--|--|
| | Number of meetings the Director was eligible to attend | Number of meetings the Director attended |
| Khoo Gee Choo, Jamie | 4 | 4 |
| Chow-Yee Koh | 4 | 4 |
| Paul Sun | 0 | 0 |
| Gu Huan Qing, Philip | 4 | 4 |
| Qingjian Wang | 1 | 1 |

Indemnifying directors, officers or auditor

During the year, the Company paid a premium to insure officers of the Group. The officers covered by the insurance policy include all directors. The Contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Company.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Company against a liability incurred as such by an officer or auditor.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Stemcell United Limited (formerly On Q Group Limited)

Remuneration Report (Audited)

This report outlines the remuneration arrangement in place for directors and key management personnel of Stemcell United Limited.

Principles of compensation

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and senior executives. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Remuneration Committee obtains independent advice on the appropriateness of compensation packages of both the Group given trends in comparative companies and the objectives of the Group's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant segments' performance;
- the Group's performance including:
 - the Group's earnings;
 - the growth in share price and delivering constant returns on shareholder wealth; and
 - The amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation and short- and long-term performance-based incentives.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel, and contributes to post-employment superannuation plans on their behalf.

Fixed remuneration

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually through a process that considers individual, segment and overall performance of the Group. In addition external consultants provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

Performance-linked remuneration

Performance-linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Group under the rules of the Employee Share Option Plan.

Long-term incentive

Options are issued under the Employee Share Option Plan and it provides for key management personnel to receive options over ordinary shares for no consideration.

The ability to exercise the options is conditional on the Group achieving certain performance hurdles. The performance hurdles comprise the Group reaching and exceeding its budgeted profit forecast.

Stemcell United Limited (formerly On Q Group Limited)

Short-term incentive bonus

Each year KPI's (key performance indicators) for the key management personnel are set. The KPI's generally include measures relating to the Group, the relevant segment and the individual, and include financial, people, customer and strategy and risk measures. The measures are chosen as they directly align the individual's reward to the KPI's of the Group and to its strategy and performance.

The financial performance objectives are "profit after tax" and "return on capital employed" compared to budgeted amounts. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, customer satisfaction and staff development.

Directors and key management remuneration

Details of the nature and amount of each element of the remuneration of each director and key management of the Company as at 30 June 2016 and 30 June 2015 are shown in the table below:

| Director Remuneration | | | | | | | | | |
|-------------------------|------|------------------------------|----------------------------|--------------------------|--------------------|----------------------|----------------------|------------|---|
| Non-executive directors | Year | Short Term Employee Benefits | | Post-Employment Benefits | Long-Term Benefits | Termination Benefits | Share-Based Payments | Total (\$) | Performance Based Percentage of Remuneration (\$) |
| | | Cash Salary & Fees (\$) | Non-Monetary Benefits (\$) | Superannuation (\$) | (\$) | (\$) | (\$) | | |
| Khoo Gee Choo, Jamie~ | 2016 | 90,000 | - | 3,800 | - | - | - | 93,800 | 0% |
| | 2015 | 25,000 | - | 2,375 | - | - | 9,575 | 36,950 | 0% |
| Chow-Yee Koh* | 2016 | 70,000 | - | 3,230 | - | - | - | 73,230 | 0% |
| | 2015 | 44,000 | - | 1,900 | - | - | - | 45,900 | 0% |
| Paul Sun | 2016 | 7,000 | - | 665 | - | - | - | 7,665 | 0% |
| | 2015 | - | - | - | - | - | - | - | 0% |
| Gu Huan Qing, Philip | 2016 | 171,540 | - | - | - | - | - | 171,540 | 0% |
| | 2015 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0% |
| Ko Chun Way, Wayne | 2016 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0% |
| | 2015 | 21,900 | - | - | - | - | - | 21,900 | 0% |
| Wang Qingjiang | 2016 | - | - | - | - | - | - | - | 0% |
| | 2015 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0% |
| TOTAL | 2016 | 338,540 | - | 7,695 | - | - | - | 346,235 | 0% |
| | 2015 | 90,900 | - | 4,275 | - | - | 9,575 | 104,750 | 0% |

*Includes fees of \$36,000 (2015: \$24,000) relating to provision of accounting and company secretarial services.

~Includes fees of \$50,000 (2015: NIL) relating to provision of corporate services.

Service agreements

Remuneration and other terms of employment for the Directors and other Key Management Personnel are formalised in a Service Agreement. The major provisions of the agreements relating to remuneration are set out below:

| Director | Base Salary/Fees (\$) | Term of agreement | Notice Period |
|----------------------|-----------------------|--------------------------|---------------|
| Khoo Gee Choo, Jamie | 42,000 | 1 year and auto-renewal | 1 month |
| Chow-Yee Koh | 36,000 | 1 year and auto-renewal | 1 month |
| Paul Sun | 36,000 | 1 year and auto-renewal | 1 month |
| Gu Huan Qing, Philip | SGD 216,000* | 3 years and auto-renewal | 1 month |

* Paid in Singaporean Dollar (approx A\$215,000)

Stemcell United Limited (formerly On Q Group Limited)

Directors shareholdings

The table below shows the shareholdings of each director in number and percentage as at 30 June 2016.

| Director | Shareholding | % |
|----------------------|--------------|--------|
| Khoo Gee Choo, Jamie | 5,053,950* | 1.39% |
| Chow-Yee Koh | - | - |
| Paul Sun | - | - |
| Gu Huan Qing, Philip | 120,000,000 | 32.91% |

* Shares held in a company related to Ms Khoo Gee Choo, Jamie

Share based remuneration

There was no share based remuneration paid.

End of remuneration report

Non-Audit Services

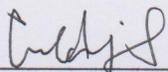
No non-audit services were provided to the group during the year.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 7 of the Annual Report.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Signed by



Gu Huan Qing, Philip
Director

Dated: 30 September 2016

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Stemcell United Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Stemcell United Limited and the entities it controlled during the year.



Sydney, NSW
30 September 2016

A G Smith
Director

HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215

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Stemcell United Limited (formerly On Q Group Limited)

CORPORATE GOVERNANCE STATEMENT

The board of directors is responsible for the corporate governance of Stemcell United Limited (“the Company”). A new board of directors was appointed on 3 September 2015 following a shareholder’s general meeting. The new board of directors has established a corporate governance framework which follows the recommendations as set out in the ASX Corporate Governance Council’s Principles and Recommendations 3rd edition (“Principles and Recommendations”).

The Company has followed each recommendation where the board has considered the recommendation to be appropriate benchmark for the Company’s corporate governance practises. Where the Company’s corporate governance practises follow a recommendation, the board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the “if not, why not” reporting regime, where the Company’s corporate governance practises do not follow a recommendation, the board explained its reasons for not following the recommendation and disclosed what, if any, alternative practises the Company has adopted instead of those in the recommendation.

The Company’s corporate governance framework can be viewed on the Company’s website <http://scu.com.sg/corporate-governance/>.

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Stemcell United Limited (formerly On Q Group Limited)

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

| | | 2016 \$ | 2015 \$ |
|---|----|---------------------|-------------------|
| Revenue | 26 | 74,753 | – |
| Cost of Sales | 26 | (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 | 4 | – | (226,630) |
| Settlement of Deed of Company Arrangement (“DOCA”) | | – | (100,000) |
| Write-back of payables on settlement of DOCA | | – | 76,272,483 |
| Impairment | 5 | (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 | 6 | (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 (loss) for the year | | (35,620,340) | 75,041,240 |
| Earnings per share | | | |
| Basic (cents per share) | 7 | (10.50) | 30.99 |
| Diluted (cents per share) | 7 | (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

(formerly On Q Group Limited)

Statement of Financial Position as at 30 June 2016

| | Note | 2016 \$ | 2015 \$ |
|--------------------------------------|------|------------------|------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 272,897 | 3,554,300 |
| Trade and other receivables | 8 | 132,255 | 26,372 |
| TOTAL CURRENT ASSETS | | 405,152 | 3,580,672 |
| NON CURRENT ASSETS | | | |
| Plant and equipment | 9 | 36,084 | – |
| Goodwill | 10 | 4,439,871 | – |
| TOTAL NON CURRENT ASSETS | | 4,475,955 | – |
| TOTAL ASSETS | | 4,881,107 | 3,580,672 |
| LIABILITIES | | | |
| Trade and other payables | 11 | 555,535 | 168,193 |
| Amount due to a director | | 163,868 | – |
| Income tax payable | | 7,146 | – |
| Convertible notes | 12 | – | 3,262,634 |
| TOTAL CURRENT LIABILITIES | | 726,549 | 3,430,827 |
| TOTAL LIABILITIES | | 726,549 | 3,430,827 |
| NET ASSETS | | 4,154,558 | 149,845 |
| EQUITY | | | |
| Contributed equity | 13 | 64,984,036 | 25,506,983 |
| Option reserve | 14 | 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 (formerly On Q Group 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 issue costs | (573,119) | – | – | – | (573,119) |
| Share issued on conversion of convertible notes | 3,368,572 | – | – | – | 3,368,572 |
| Fair value of shares issued to vendor of Stemcell United Pte Ltd | 36,000,000 | – | – | – | 36,000,000 |
| Fair value of options issued | – | 148,000 | – | – | 148,000 |
| Total comprehensive income | – | – | (35,618,359) | (1,981) | (35,620,340) |
| Balance at 30 June 2016 | 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

(formerly On Q Group Limited)

Statement of Cash Flows for the year ended 30 June 2016

| | | 2016 \$ | 2015 \$ |
|---|----|-------------|------------|
| CASH FLOWS RELATING TO OPERATING ACTIVITIES | | | |
| Receipts from customers | | 74,753 | – |
| Payment to suppliers and employees | | (1,022,043) | (619,722) |
| Interest income | | 9,323 | 6,826 |
| Interest expense | | (4,048) | – |
| Income tax paid | | (22,570) | – |
| Total cash used in operating activities | 15 | (964,585) | (612,896) |
| CASH FLOWS RELATING TO INVESTING ACTIVITIES | | | |
| Purchase of plant and machinery | | (168,731) | – |
| Payment for acquisition of subsidiary, net of cash acquired | 3 | (2,413,762) | – |
| Total cash used in investing activities | | (2,582,493) | – |
| CASH FLOWS RELATING TO FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | 681,600 | 905,000 |
| Payment of share issue costs | | (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 financing activities | | 267,656 | 4,167,196 |
| Net increase in cash and cash equivalents | | (3,279,422) | 3,554,300 |
| Cash and cash equivalents at beginning of financial year | | 3,554,300 | – |
| Foreign currency translation differences | | (1,981) | – |
| Cash and cash equivalents at end of financial year | | 272,897 | 3,554,300 |

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

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements consist of Stemcell United Limited (“the Company”) and its controlled entities (“the Group”).

(a) Domicile

The Company is a company domiciled in Australia, and is a listed public and for-profit Company trading on the Australian Securities Exchange.

(b) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (‘AASBs’) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (‘AASB’) and the Corporations Act 2001. International Financial Reporting Standards (‘IFRSs’) form the basis of Australian Accounting Standards (‘AASBs’) adopted by the AASB. The financial report of the Company complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

(c) Basis of Presentation

The financial report is presented in Australian dollars, which is the Company’s functional currency.

The financial report has been prepared on an accruals basis and is based on historical cost convention except for certain assets and liabilities which are stated at fair value as described in the accounting policies.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Details of key accounting estimates and judgements are in Note 10 and 14 to the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(d) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When a subsidiary makes a new issue of capital and the consolidated entity’s percentage ownership changes, the share of retained profits and reserves is attributed to the Company and outside equity interest reflecting the new ownership interest. The adjustment is not reflected in net profit but as a direct adjustment to the specific equity accounts.

Investments in subsidiaries are carried at their cost of acquisition in the Company’s financial statements.

Stemcell United Limited (formerly On Q Group Limited)

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

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates or, if not consumed or sold by the associate, when the consolidated entity's interest in such entities is disposed of.

(e) Business Combinations

The acquisition method of accounting is used to account for all the business combinations, regardless of whether equity instruments or other assets are required. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred
- Liabilities incurred to the former owners of the acquired business
- Equity interests issued by the group
- Fair value of any asset or liability resulting from a contingent consideration arrangement, and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition relation costs are expensed as incurred.

The excess of the:

- Consideration transferred,
- Amount of any non-controlling interest in the acquired entity, and
- Acquisition-date fair value of any previous equity interest in the acquired entity,

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue from sale of goods is recognised when sales invoices are raised following the dispatch of goods to the customer and the associated risks have passed to the customer. Amounts disclosed as revenue are net of returns, trade allowances, and rates paid.

(g) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Stemcell United Limited

(formerly On Q Group Limited)

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

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(h) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits.

(j) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

Stemcell United Limited (formerly On Q Group Limited)

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

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(l) Plant and equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(m) Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(n) Impairment

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Impairment testing is performed annually for intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(o) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Stemcell United Limited (formerly On Q Group Limited)

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

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

- **Financial Liabilities**
Non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

(p) Trade and other payables

Trade and other payables are stated at their fair value at inception. Trade payables are non-interest bearing and are normally settled according to term.

(q) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

(r) Share capital

Ordinary share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(s) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(t) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Stemcell United Limited (formerly On Q Group Limited)

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

(u) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjust the figures used to determine basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(v) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The Company's assessment of the impact of these new standards and interpretation is they will result in no significant changes to the amounts recognised or matters disclosed in the Company's financial statements.

NOTE 2: GOING CONCERN

During the year ended 30 June 2016, the Group 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 Group had \$272,897 in cash, and an excess of current liabilities over current assets of \$321,397.

Subsequent to year end, Henry Chun Fung Ko ("the lender") provided a line of credit to the Company of \$500,000 with interest charged at 5% per annum. The lender can terminate the line of credit at any time. The full amount with interest is to be paid on the anniversary of each drawdown either via cash or equivalent shares at weighted average price of 5 days trading before the anniversary of the drawdown.

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

- The receipt of debt funding; or
- The receipt of equity funding.

Accordingly, there is a material uncertainty that may cast doubt on the Group'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.

Stemcell United Limited

(formerly On Q Group Limited)

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

NOTE 3: 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 | 36,000,000 |
| 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 | (16,073) |
| Net identifiable assets acquired | <u>622,008</u> |
| Goodwill | 37,877,992 |
| 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 | (86,238) |
| Net cash outflow | <u>2,413,762</u> |

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 4: SHARE BASED PAYMENT

Amounts included as Expenses in Profit or Loss:

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| Issuance of 12,330,820 shares as settlement of creditor trust and liquidation expenses^ | – | 35,130 |
| Issuance of 100 million performance options for introducing a project to the Company* | – | 191,500 |
| | – | 226,630 |

^The 12,330,820 shares issued were valued based upon the value of shares issued to shareholders for cash close to the date of issue.

*On 30 October 2014, 100,000,000 options were issued to an investment group for introducing a project to the Company. The options were exercisable at a price of 0.002 cents on or before 31 December 2015 provided the Company signs a Heads of Agreement to adopt the project introduced by the investment group. This condition was fulfilled on 22 December 2014 when the Company entered into a conditional Sale and Purchase agreement to acquire a Singapore biotechnology company which focuses on using stem cell technology to grow and extract plant essence. Completion of the Sale and Purchase agreement was dependent on the Company resuming re-quotation on the ASX.

The directors have determined the fair value of the options issued to the investment group to be A\$191,500. The fair value at grant date was determined using the Black Scholes option model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at granted date and expected volatility of the underlying shares, the expected dividend yield and the risk free interest rate of the term of the option.

The options was fully exercised by the investment group on the 1st quarter of calendar year 2015 at total exercise price of \$2,000.

During the year ended 30 June 2006, options were issued to the lead manager of the prospectus fund raising. These options were not expensed and were treated as a deduction from consolidated equity. Refer Note 14 for further details.

NOTE 5: IMPAIRMENT

| | 2016 \$ | 2015 \$ |
|------------------------------------|------------|------------|
| Impairment of inventory~ | 937,875 | – |
| Impairment of plant and equipment~ | 121,468 | – |
| Impairment of goodwill* | 33,438,121 | – |
| | 34,497,464 | – |

~Impairment was made to inventory and plant and equipment on the basis of non-recoverability of the carrying amount.

*Impairment was made to goodwill on the basis of an independent valuation of goodwill from BMI Appraisals Limited (Note 10).

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 6: INCOME TAX

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

| | 2016 \$ | 2015 \$ |
|---|--------------|--------------|
| Numerical reconciliation of income tax income to prima facie tax payable | | |
| Net profit before tax | (35,604,748) | 75,041,240 |
| Tax at the Australian tax rate of 30% (2015: 30%) | (10,681,424) | 22,512,372 |
| Tax effect of amounts that are not deductible / taxable in calculating taxable income | 10,349,239 | (22,813,756) |
| Tax losses and temporary differences not brought to account | 345,796 | 301,384 |
| Income Tax Expense | 13,611 | - |

Total unrecognised deferred tax asset relating to losses carried forward is \$647,180 (2015: \$301,384).

NOTE 7: EARNINGS PER SHARE

| | 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 |
| | | |
| | No. | No. |
| (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 8: OTHER RECEIVABLES

| | 2016 \$ | 2015 \$ |
|-----------------|------------|------------|
| CURRENT | | |
| Deposits | 17,137 | - |
| GST receivables | 115,118 | 26,372 |
| | 132,255 | 26,372 |

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Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 9: PLANT AND EQUIPMENT

| | IT equipment \$ | Machineries \$ | Furniture \$ | Renovation \$ | TOTAL \$ |
|---------------------------------|--------------------|-------------------|-----------------|------------------|-------------|
| Cost | | | | | |
| At 1 July 2015 | – | – | – | – | – |
| Additions | 12,056 | 61,752 | 61,509 | 45,471 | 180,787 |
| Impairment | (12,056) | (21,659) | (61,509) | (45,471) | (140,694) |
| At 30 June 2016 | – | 40,093 | – | – | 40,093 |
| Accumulated depreciation | | | | | |
| At 1 July 2015 | – | – | – | – | – |
| Depreciation | 6,363 | 6,175 | 6,151 | 4,547 | 23,236 |
| Impairment | (6,363) | (2,166) | (6,151) | (4,547) | (19,227) |
| At 30 June 2016 | – | 4,009 | – | – | 4,009 |
| Carrying amount | | | | | |
| At 30 June 2016 | – | 36,084 | – | – | 36,084 |
| At 30 June 2015 | – | – | – | – | – |

NOTE 10: GOODWILL

| | 2016 \$ | 2015 \$ |
|---|--------------|------------|
| Goodwill recognised on acquisition of subsidiary (note 3) | 37,877,992 | – |
| Impairment of goodwill (note 5) | (33,438,121) | – |
| Fair value balance of goodwill at reporting date | 4,439,871 | – |

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. The valuation was completed on 26 August 2016 by J. Chan, Senior Director of BMI Appraisals Limited.

Key Assumptions made by the valuer in arriving at the fair value are:

- All licenses issued by any authorised entity that will materially affect the operation of Stemcell United Pte Ltd (“SCU”) have been obtained or can be obtained upon request;
- There will be no material change in the political, legal, fiscal, technological, market and economic conditions in the jurisdiction where SCU operates;
- The market return, market risk, interest rates and exchange rates will not differ materially from those of present or expected;
- The core operation of SCU will not differ materially from those of present or expected;
- The information in respect of SCU have been prepared after due and careful consideration by the senior management of the Company;
- There will be no human disruptions or natural disasters that will materially affect the operation of SCU;
- WACC of 26.39%;
- Discount for lack of marketability – 16.1%;
- Terminal value of approximate times EBIT – 4;
- Revenue commencing during the year ending 31 December 2017, and net profits being generated during the year ending 31 December 2017;
- Increase in revenue of 100% from year ending 31 December 2017 to 31 December 2018;
- Average increase in revenue of 18% from 1 January 2019 to 31 December 2023;
- Increase in net profit of 140% from year ending 31 December 2017 to 31 December 2018;
- Average increase in profit of 18% from 1 January 2019 to 31 December 2023; and
- The above assumptions are based upon an expected substantial increase in the healthcare market.

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 11: TRADE AND OTHER PAYABLES

| | 2016 \$ | 2015 \$ |
|------------------|------------|------------|
| CURRENT | | |
| Trade payables | 117,357 | – |
| Other payables | 342,123 | 168,193 |
| Accrued expenses | 96,055 | |
| | 555,535 | 168,193 |

NOTE 12: CONVERTIBLE NOTES

The Company issued 49,101,374 convertible notes for \$3,437,096 on 30 March 2015. On September 2015 at re-quotation 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 Statement of Financial Position 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 subsequent remeasured.

NOTE 13: CONTRIBUTED EQUITY

| | 2016 \$ | 2015 \$ |
|---------------------------------------|------------|------------|
| Issued and fully paid ordinary shares | 64,984,036 | 25,506,983 |

Movements in ordinary shares

| | Number of shares | A\$ |
|---|------------------|------------|
| At 1 July 2014 | 73,950,146 | 24,147,000 |
| Reconstruction of issued shares (22 shares to 1 share) | (70,587,521) | – |
| Issuance of shares to Creditors Trust and consultants | 12,330,820 | 35,130 |
| Placement of shares at 0.28 cent per share, net of cost | 317,661,704 | 827,000 |
| Value of conversion rights – convertible notes (note 6) | – | 303,353 |
| Exercise of performance options* | 100,000,000 | 194,500 |
| At 30 June 2015 | 433,355,149 | 25,506,983 |
| Reconstruction of issued shares (2 shares to 1 share) | (216,676,904) | – |
| Conversion of convertible notes to shares | 24,550,687 | 3,368,572 |
| Allotment of prospectus shares, net of costs | 3,408,000 | 108,481 |
| Issue of shares to vendor on acquisition of subsidiary (Note 3) | 120,000,000 | 36,000,000 |
| At 30 June 2016 | 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.

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Stemcell United Limited (formerly On Q Group Limited)

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

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.

Capital Management

The management's objectives when managing capital are to ensure that the Company can fund its operations, meet any debt obligations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in risks and in the market. These responses include the management of debt levels and share issues.

NOTE 14: OPTION RESERVE

| | 2016 \$ | 2015 \$ |
|--|--------------------------|------------|
| Option Reserve | 148,000 | - |
| Movements in Option Reserve | Number of options | \$ |
| 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:

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

NOTE 15: RECONCILIATION OF CASHFLOW FROM OPERATING ACTIVITIES

| | 2016 \$ | 2015 \$ |
|---|--------------|--------------|
| Profit/loss for the year | (35,618,359) | 75,041,240 |
| Share based payment expenses | - | 226,630 |
| Impairment | 34,497,464 | - |
| Depreciation | 23,236 | - |
| Settlement of DOCA | - | 100,000 |
| Writeback of Payble on DOCA | - | (76,272,483) |
| Accrued interest on convertible note | 105,938 | 128,891 |
| Changes in receivables | 262,235 | (5,266) |
| Changes in inventory | (460,882) | - |
| Changes in payables | 225,783 | 168,092 |
| Total cash used in operating activities | (964,585) | (612,896) |

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 16: COMMITMENTS

At 30 June 2016 the company had the following commitments:

Operating leases contracted for but not recognised in the financial statements

| | 2016 \$ | 2015 \$ |
|------------------------------|------------|------------|
| Within than 12 month | 82,656 | – |
| Between 12 month and 5 years | 34,440 | – |
| More than 5 years | – | – |
| | 117,096 | – |

The operating lease was terminated on 30 September 2016.

At 30 June 2015 the company had the following commitments which were subject to successful re-quotation of the Company's shares on the ASX:

Payable on successful re-quotation of the Company's shares on the ASX:

| | 2015 |
|---|---|
| Acquisition of SUP | \$2,500,000 and 120,000,000 ordinary shares |
| Payment of success fee to a company related to Khoo Gee Choo, Jamie | \$50,000 |
| Payment of success fee to professional parties assisting in the re-quotation of the Company's shares on ASX | \$270,000, 4% of fund raise, 2,000,000 options, and retainer fee of \$12,500 per month for next 12 months |

NOTE 17: AUDITOR'S REMUNERATION

| | 2016 \$ | 2015 \$ |
|---|------------|------------|
| HLB Mann Judd Audit and review of financial report | 43,500 | 17,500 |
| Other services from HLB Mann Judd | | |
| Investigating Accountant's Report | – | 19,000 |
| Independent Expert's Report | – | 33,000 |
| Tax advisory | – | 3,200 |
| | – | 55,200 |

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 18: KEY MANAGEMENT PERSONNEL DISCLOSURES

| Remuneration of key management personnel | 2016 \$ | 2015 \$ |
|--|----------------|----------------|
| Short-term employee benefits | 338,540 | 90,900 |
| Post-employment benefits | 7,695 | 4,275 |
| Share-based payments | - | 9,575* |
| | <u>346,235</u> | <u>104,750</u> |

* Includes fair value of \$9,575 on the performance option issued to a company related to a director

Refer to the remuneration report set out within the Directors' Report for individual details of key management personnel remuneration.

NOTE 19: RELATED PARTY DISCLOSURES

| | 2016 \$ | 2015 \$ |
|--|-----------------|---------------|
| Related party balances | | |
| Loan due to a director (interest free and unsecured) | 163,868 | - |
| Trade payable and other payables owed to directors and director related entities | <u>357,046</u> | <u>74,275</u> |
| Transactions | | |
| Sales to a director related company | 488,580 | - |
| Less credit notes issued to a director related company | (444,164) | - |
| Purchases from a director related company | (319,015) | - |
| Less credit notes received from a director related company | <u>232,256</u> | <u>-</u> |
| | <u>(42,342)</u> | <u>-</u> |

Credit notes were issued to the Group as due to a change in regulation in China, the group's Resina product could no longer be sold in China. Accordingly, credit notes were issued by the group in relation to a significant amount of sales made. Credit notes were also received from the same related party company in relation to purchases made by the Group.

NOTE 20: SEGMENT INFORMATION

In 2016 the consolidated group operated in one business segment being the sourcing, producing, marketing and selling of Resina Draco Blume and other traditional Medicines. In 2015, the company entered in a Deed of Company Arrangement and began process of purchasing Stemcell Limited Pte Ltd.

| | 2016 | | | 2015 |
|--------------------|-----------------|-----------------|--------------|-----------------|
| | Australia \$ | Singapore \$ | Total \$ | Australia \$ |
| Revenue | - | 74,753 | 74,753 | - |
| Profit / (Loss) | (34,092,915) | (1,525,444) | (35,618,359) | (75,041,240) |
| Total assets | 4,784,732 | 96,375 | 4,881,107 | 3,580,672 |
| Total liabilities | (24,759) | (701,790) | (726,549) | (3,430,827) |
| Interest revenue | 9,323 | - | 9,323 | 6,826 |
| Interest expense | (105,938) | (4,048) | (109,986) | (128,891) |
| Depreciation | - | (23,236) | (23,236) | - |
| Impairment | (33,438,122) | (1,059,342) | (34,497,464) | - |
| Income tax expense | - | (13,611) | (13,611) | - |

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 21: FINANCIAL INSTRUMENTS RISK

Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The main types of risks are credit risk, liquidity risk and interest rate risk.

The Group's risk management is undertaken by the board of directors, and focuses on actively securing the Company's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Credit risk

Credit risk is managed and reviewed regularly by the management. It arises from exposures to customers as well as through deposits with financial institutions. Management requires that all surplus funds are only invested with financial institutions with a Standard and Poor's rating of at least AA-. All bank balances of the Company at 30 June 2016 were held with a bank with this rating.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Liquidity risk

Liquidity risk is the risk that the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring scheduled debt servicing payments for financial liabilities.

Maturity analysis table

The maturity analysis table below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

| 2016 | Weighted average effective interest rate % | Interest bearing maturing within 1 year \$ | Non interest bearing maturing within 1 year \$ | Non-interest bearing between 2 year and 5 years \$ | TOTAL \$ |
|------------------------------|--|--|--|--|------------------|
| Financial assets | | | | | |
| - Cash and cash equivalents | 0.5% | 267,372 | 5,525 | - | 272,897 |
| - Other receivables | - | - | 132,255 | - | 132,255 |
| Total financial assets | | 267,372 | 137,780 | - | 405,152 |
| Financial liabilities | | | | | |
| - Trade and other payables | - | - | (555,535) | - | (555,535) |
| - Amounts due to directors | | - | - | (163,868) | (163,868) |
| Total financial liabilities | | - | (555,535) | (163,868) | (719,403) |
| Net | | 267,372 | (321,700) | (163,868) | (314,251) |

Stemcell United Limited
(formerly On Q Group Limited)

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

| 2015 | Weighted average effective interest rate % | Interest bearing maturing within 1 year \$ | Non interest bearing maturing within 1 year \$ | TOTAL \$ |
|------------------------------|--|--|--|----------------|
| Financial assets | | | | |
| - Cash and cash equivalent | 0.9% | 3,553,300 | 1,000 | 3,554,300 |
| - Other receivables | - | - | 26,372 | 26,372 |
| Total financial assets | | 3,553,300 | 27,372 | 3,580,672 |
| Financial liabilities | | | | |
| - Other payables | - | - | (168,193) | (168,193) |
| - Convertible notes | 15% | (3,262,634) | - | (3,262,634) |
| Total financial liabilities | | (3,262,634) | (168,193) | (3,430,827) |
| Net | | 290,666 | (140,821) | 149,845 |

Interest rate risk

The Group's exposure to interest rate risk relates primarily to its short-term deposits placed with financial institutions.

The Group has performed sensitivity analysis relating to its financial instrument's exposure to interest rate at reporting date.

The following table illustrates the sensitivity of loss and equity to a reasonably possible change in interest rates of +/- 0.5%. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

Interest rate sensitivity

| Year ended | Profit and loss \$ | | Equity \$ | |
|--------------|--------------------|--------|-----------|--------|
| | +0.5% | -0.5% | +0.5% | -0.5% |
| 30 June 2016 | +1,337 | -1,337 | +1,337 | -1,337 |
| 30 June 2015 | +3,792 | -3,792 | +3,792 | -3,792 |

Foreign Exchange Risk

The Group's exposure to foreign currency risk is on the financial assets and liabilities of the Group's operations, denominated in currencies other than the functional currency of operations. Cash, receivables, fixed assets and trade and other creditors have been converted to Australian dollars from Singapore dollars.

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Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 22: FAIR VALUE MEASUREMENT

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The Group does not hold any financial assets or liabilities carried at fair value as at 30 June 2016.

The carrying amounts of current receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities approximates the carrying amount as the impact of discounting is not significant.

NOTE 23: SUBSIDIARIES

The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group unless otherwise stated. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation or registration.

| Name of subsidiary | Principal place of business and incorporation | Class of shares | Ownership interest held | |
|--|---|-----------------|-------------------------|------|
| | | | 2016 | 2015 |
| Stemcell United Pte Ltd Subsidiary of Stemcell United Pte Ltd | Singapore | Ordinary | 100% | – |
| - Stemcell Essential Pte Ltd | Singapore | Ordinary | 100% | – |

NOTE 24: SUBSEQUENT EVENTS

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company.

NOTE 25: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company is not aware of any other Contingent Assets or Liabilities that should be disclosed in accordance with AASB 137.

Stemcell United Limited (formerly On Q Group Limited)

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

NOTE 26: REVENUE AND COST OF SALES

Breakdown of revenue

| | 2016 | 2015 |
|---------------|---------------|----------|
| | \$ | \$ |
| Sales | 514,506 | - |
| Less: returns | (439,753) | - |
| Net Sales | <u>74,753</u> | <u>-</u> |

Breakdown of cost of sales

| | 2016 | 2015 |
|-------------------|---------------|----------|
| | \$ | \$ |
| Cost of Sales | 314,301 | - |
| Less: returns | (227,543) | - |
| Net Cost of Sales | <u>86,758</u> | <u>-</u> |

NOTE 27: PARENT ENTITY INFORMATION

| Statement of Profit and Loss and Other Comprehensive Income | 2016 | 2015 |
|---|---------------------|-------------------|
| | \$ | \$ |
| Revenue | - | - |
| Other income | 9,323 | 6,826 |
| Write-back of payables on settlement of DOCA | - | 76,272,483 |
| Impairment of investments and intercompany balances | (5,361,880) | - |
| Impairment of goodwill | (33,438,121) | - |
| Expenses | (664,117) | (1,238,069) |
| Profit/(loss) for the year | <u>(39,454,795)</u> | <u>75,041,240</u> |

| Statement of financial position | 2016 | 2015 |
|---------------------------------|----------------|----------------|
| | \$ | \$ |
| Total assets | 344,863 | 3,580,672 |
| Total liabilities | (24,759) | (3,430,827) |
| Net assets | <u>320,104</u> | <u>149,845</u> |
| <u>Equity</u> | | |
| Contributed equity | 64,984,036 | 25,506,983 |
| Option reserve | 148,000 | - |
| Retained earnings | (64,811,932) | (25,357,138) |
| | <u>320,104</u> | <u>149,845</u> |

No guarantee was provided by parent entity in relation to debts of its legal subsidiary at reporting date.

The parent entity has no contingent liabilities or contingent assets at reporting date.

The parent entity has no commitments at reporting date.

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

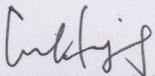
Stemcell United Limited (formerly On Q Group Limited)

DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2016

In the directors' opinion:

1. The financial statements and notes set out on pages 9 to 30 are in accordance with the Corporations Act 2001, including:
 - i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the Consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date.
2. There are reasonable grounds to believe that Stemcell United Limited will be able to pay its debts as and when they become due and payable.
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

This declaration is made in accordance with a resolution of the directors.



Gu Huan Qing, Philip
Director

30 September 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Stemcell United Limited:

Report on the Financial Report

We have audited the accompanying financial report of Stemcell United Limited ("the company"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration, for both the company and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements of the consolidated entity and the separate financial statements of the company comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's and its controlled entities internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HLB Mann Judd Assurance (NSW) Pty Ltd ABN 96 153 077 215

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Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

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HLB Mann Judd is a member of  International. A world-wide organisation of accounting firms and business advisers.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

- (a) the financial report of Stemcell United Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b).

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 2 (Going concern) in the financial report, which indicates that the consolidated entity incurred a net loss of \$35,618,359 during the year ended 30 June 2016 and, as of that date, had cash of \$272,897 and deficiency of working capital of \$321,397.

These conditions, along with other matters as set forth in Note 2 (Going concern), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 6 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Stemcell United Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.



HLB Mann Judd Assurance (NSW) Pty Ltd
Chartered Accountants



A G Smith
Director

Sydney, NSW
30 September 2016

Stemcell United Limited

(formerly On Q Group Limited)

ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is effective as at 26 September 2016.

Substantial Shareholders

The number of substantial shareholders and their associates are set out below:

| <u>Shareholders</u> | <u>Number of Shares</u> |
|---------------------|-------------------------|
| GU HUANQING | 120,000,000 |
| WANG JIAN FANG | 37,500,000 |
| KO HENRY CHUN FUNG | 33,361,476 |
| DANNY LAI KONG SANG | 32,419,378 |
| ZHANG LIN | 29,801,722 |

Voting Rights

Ordinary shares 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

Distribution of equity security holders

| Holding | Ordinary shares | |
|------------------|-----------------|----------|
| | Shares | Options |
| 1 – 1,000 | 1599 | - |
| 1,001 – 5,000 | 51 | - |
| 5,001 – 10,000 | 166 | - |
| 10,001 – 100,000 | 38 | - |
| 100,001 and over | 40 | 2 |
| | <u>1,894</u> | <u>2</u> |

Twenty largest shareholders

| | Ordinary Shares | |
|---------------------------|--------------------|-------------------|
| | Number Held | %of issued shares |
| GU HUANQING | 120,000,000 | 32.91% |
| WANG JIAN FANG | 37,500,000 | 10.28% |
| KO HENRY CHUN FUNG | 33,361,476 | 9.15% |
| DANNY LAI KONG SANG | 32,419,378 | 8.89% |
| ZHANG LIN | 29,801,722 | 8.17% |
| YUN WU TSAI | 14,500,000 | 3.98% |
| NANG TSE CHI | 14,000,000 | 3.84% |
| KEUNG LI CHI | 10,640,376 | 2.92% |
| LEUNG KAM SHUN BETTY | 6,500,000 | 1.78% |
| EMERALD CHARM INV PTE LTD | 6,053,950 | 1.66% |
| EQUINEX INV LTD | 5,053,950 | 1.39% |
| CHOO LEOW LAY | 5,000,000 | 1.37% |
| WAH YIP KOON | 5,000,000 | 1.37% |
| CHAN RINGO SEK KEUNG | 3,600,000 | 0.99% |
| SUEN SHUK MING | 3,600,000 | 0.99% |
| AM PTNRS CAP CO LIMITED | 3,575,000 | 0.98% |
| ZHU BENYING | 3,571,400 | 0.98% |
| SINBAD PL | 3,515,410 | 0.96% |
| CHAN LOK MING | 3,500,000 | 0.96% |
| KIN JACQUELINE LOY MEI | 2,500,000 | 0.69% |
| | <u>343,692,662</u> | <u>94.26%</u> |

Stemcell United Limited (formerly On Q Group Limited)

Option holders

| | Options | |
|-------------------------------------|------------------|--------------------|
| | Number Held | %of issued options |
| PERSHING AUSTRALIA NOMINEES PTY LTD | 1,000,000 | 50% |
| BELLOC PTY LTD | 1,000,000 | 50% |
| | <u>2,000,000</u> | <u>100%</u> |

Securities exchange

The Company is listed on the Australian Securities Exchange.

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