United Networks Limited

ABN 60 607 921 246

Appendix 4E - Preliminary Final Report - 30 June 2019

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 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

				$
Revenues from ordinary activities	up	12.8%	to	3,010,677
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	down	99.6%	to	(71,988)
Loss from ordinary activities after tax attributable to the owners of United Networks Limited	down	94.1%	to	(1,132,092)
Loss for the year attributable to the owners of United Networks Limited	down	94.1%	to	(1,132,092)

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 $1,132,092 (30 June 2018: $19,268,609).

The negative EBITDA of $71,988 for FY19 is a 96.1% improvement on the adjusted negative EBITDA for FY18 of $1,848,927. The adjusted negative EBITDA for FY18 excludes the impairment of goodwill of $16,016,577.

United Networks Limited (UNL) focus for the year ending 30 June 2019 was to restructure the business to a sustainable level, whilst maintaining the new product development with direct and partner lead sales growth. UNL successfully increased revenues by launching new partners and products in FY19 whilst at the same time reducing overheads to improve gross margins.

Key Achieved in FY2019
- Increase in direct sales
- Increase in gross margin
- Reduction in overheads
- Reduction in net cash outflows
- Launch of New Products and strategic partnerships

Financial Summary
- Group Revenue of $3.0 million, up 14.7% on prior year $2.6m
  - Direct Sales and Partner Sales of $2.34m
  - Revenue from direct UNL branded online products grew by 580%
  - The FY19 adjusted normalised total sales excluding Covermore increased by 18%
- Gross Profit as a percentage of sales before grants was 41% of sales an increase of 27% on FY18 primarily as result of improved SIM/eSIM bundling of online products coupled with the launch of eSIM has reduced the distribution cost as it is a virtual product
- Restructuring in FY19 resulted in reduced overhead to $1.56m down 34.6% (FY18 $2.39)
- EBITDA loss of $0.07 a 92% reduction (FY18 $1.8m) an improvement of $1.73m
- Loss after tax of $1.13m a 99% reduction (FY18 $19.27m)
- Net cash outflows $0.83m reduced by $2.03m (FY18 Net Cash Outflows $2.86m)

United Networks Limited
Appendix 4E
Preliminary final report

		FY19 million	FY18 million
Group Revenue			
Sales - Direct & Partner	Up 18%	2.34	1.98
Sales - Covermore	No Sales FY19	-	0.63
Grants	FY18 Grant was accrued in FY17	0.66	-
Total		3.00	2.61
Gross Profit	Up 92%	1.62	0.84
Gross Profit Before Grants	Up 13%	0.96	0.84

New Partners, Products and Distribution FY19

- United Launched RACV offers to over 2 million members at the end of June 2019 with orders have grown in both July and August 2019
- United signed an agreement with Hepstar in April 2019 to integrate United suite of products in the OTA booking paths of its customers base we anticipate a launch in Q1 FY20
- United eSIm marketing initiatives have resulted in activations from customers in over 30 countries
- United commercially launched the eSIM in Q3 it now constitutes 23% of SIM sales after only 4 months with activation grown month on month
- United launched its first UK partner Collinson in November 2018 under the Columbus brand
- United became an Authorised Representative of Chubb insurance Australia, to allow for the sale of insurance product
- Global Insurer AIG Singapore went live in August 2018 to provide WiFi/SOS to Travel Guard Customers
- New Insuretech Products
  - Flight Delay Insurance launched in conjunction with Swiss Re and Chubb embedded in the Chubb Connect App

Key Indicators

- United average revenue per active SIM user has increased to $95 as of August 2019 a result of eSIM launch up 17% from December 2018
- 98% of United SIM sales are now under our direct brand with the database surpassing 500,000 in FY19
- United eSIM has grown to 22% of SIM sales since its launch in February 2019.
  eSIMs are now distributed electronically direct to consumer in over 32 countries and growing
- Significant interest from partners in the United Virtual eSIM solution
- United direct online sales grow 580% in FY19 and continue to grow

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3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.18	0.74

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4. Control gained over entities

Not applicable.

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5. Loss of control over entities

Not applicable.

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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.

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7. Dividend reinvestment plans

Not applicable.

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8. Details of associates and joint venture entities

Not applicable.

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9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

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10. Audit statement

An audit of the consolidated financial statements is currently in progress. We anticipate that the independent auditor's report on our 30 June 2019 audited financial statements will include an emphasis of matter paragraph outlining the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern. Additional disclosure has been included in note 1 to the unaudited preliminary financial statements.

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11. Attachments

Details of attachments (if any):

The Appendix 4E - Condensed Consolidated Preliminary Financial Report for the year ended 30 June 2019 is attached

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12. Signed

Signed ___________________________ Date: 30 August 2019

Anthony Ghattas
Chairman
Sydney

United Networks Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Note	2019 $	2018 $
Revenue	4	3,002,339	2,626,009
Interest revenue calculated using the effective interest method		8,338	42,376
Expenses			
Cost of sales		(1,380,724)	(1,775,523)
Marketing		(91,685)	(50,599)
Occupancy		-	(11,926)
Administration		(1,560,008)	(2,385,159)
Impairment of goodwill	8	-	(16,016,577)
Other expenses		(1,085,902)	(1,226,499)
Finance costs	5	(24,450)	(51,769)
Loss before income tax expense		(1,132,092)	(18,849,667)
Income tax expense		-	(418,942)
Loss after income tax expense for the year attributable to the owners of United Networks Limited		(1,132,092)	(19,268,609)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of United Networks Limited		(1,132,092)	(19,268,609)
		Cents	**Cents**
Basic earnings per share	13	(0.90)	(15.31)
Diluted earnings per share	13	(0.90)	(15.31)

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

United Networks Limited
Statement of financial position
As at 30 June 2019

	Note	2019 $	2018 $
Assets			
Current assets			
Cash and cash equivalents	6	525,890	1,355,892
Trade and other receivables		372,269	372,898
Inventories		61,964	90,900
Other		71,596	103,700
Total current assets		1,031,719	1,923,390
Non-current assets			
Property, plant and equipment	7	92,016	361,386
Intangibles	8	1,551,808	1,981,955
Total non-current assets		1,643,824	2,343,341
Total assets		2,675,543	4,266,731
Liabilities			
Current liabilities			
Trade and other payables		491,464	616,484
Contract liabilities		20,000	-
Borrowings	9	204,755	505,704
Provisions		138,392	147,815
Total current liabilities		854,611	1,270,003
Non-current liabilities			
Borrowings	10	-	87,188
Provisions		43,484	-
Total non-current liabilities		43,484	87,188
Total liabilities		898,095	1,357,191
Net assets		1,777,448	2,909,540
Equity			
Issued capital		24,278,800	24,278,800
Accumulated losses		(22,501,352)	(21,369,260)
Total equity		1,777,448	2,909,540

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

United Networks Limited
Statement of changes in equity
For the year ended 30 June 2019

	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

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2018	24,278,800	(21,369,260)	2,909,540
Loss after income tax expense for the year	-	(1,132,092)	(1,132,092)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(1,132,092)	(1,132,092)
Balance at 30 June 2019	24,278,800	(22,501,352)	1,777,448

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

United Networks Limited
Statement of cash flows
For the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		2,545,169	3,506,670
Payments to suppliers and employees (inclusive of GST)		(3,294,189)	(5,275,530)
		(749,020)	(1,768,860)
R&D tax incentive		606,070	519,033
Interest received		8,338	42,376
Export market development grant		58,099	-
Interest and other finance costs paid		(20,877)	(70,524)
Net cash used in operating activities		(97,390)	(1,277,975)
Cash flows from investing activities			
Payments for property, plant and equipment	7	(10,077)	(10,385)
Payments for intangibles	8	(394,755)	(892,499)
Loans repaid by/(advanced to) other entities		-	1,905
Net cash used in investing activities		(404,832)	(900,979)
Cash flows from financing activities			
Repayment of borrowings		(327,780)	(680,103)
Net cash used in financing activities		(327,780)	(680,103)
Net decrease in cash and cash equivalents		(830,002)	(2,859,057)
Cash and cash equivalents at the beginning of the financial year		1,355,892	4,214,949
Cash and cash equivalents at the end of the financial year	6	525,890	1,355,892

The above 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 2019 the consolidated entity incurred a loss after income tax of $1,132,092 (2018: $19,268,609) and net cash outflows from operating activities of $97,390 (2018: $1,277,975). The net operating loss for the financial year ended 30 June 2018, excluding the impairment of goodwill ($16,016,577) and the write back of the net deferred tax asset ($418,942), was $2,833,090. The recurring historical operating losses and net cash outflows from operating activities give rise to a material uncertainty that may cast significant doubt about the ability of the consolidated entity to continue as a going concern.

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 company has prepared a consolidated income and expenditure budget and cash flow budget for the 2020 financial year, based on reasonable assumptions. The Directors are budgeting for a modest surplus for the 30 June 2020 financial year and for a positive working capital balance throughout the period.

In preparing the budget, the Directors note the following:

- The consolidated entity, with the implementation of eSIM and restructuring, has significantly increased its gross profit percentage by 27% to 41% of Sales (excluding R&D Grants) (FY18 gross profit percentage: 32%).
- The consolidated entity has restructured overheads achieving a 34.6% reduction in operational costs (excluding depreciation, amortisation and interest) in the 2019 financial year.
- The company has announced the successful launch of its global eSIM in February 2019 which has received significant interest from partners in the first month of release and is growing sales each month since the launch representing over 20% of SIM sales as at June 2019.

Based on the cash flow budgets, the Directors are of the opinion that there are reasonable and supportable grounds to believe that the consolidated entity will be able to meet its liabilities from its assets in the ordinary course of business, and has accordingly prepared the financial report on a going concern basis.

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

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.

The consolidated entity operates in one geographical segment being Australia. Revenue from overseas customers is not material to the consolidated entity.

Major customers
All revenue of the consolidated entity is from external customers. During the year ended 30 June 2019 there were no transactions with a single external customer that amounted to 10 per cent or more of the consolidated entity’s revenues. For the year ended 30 June 2018, 31% of the consolidated entity's external sales revenue was derived from sales to a single customer.

Note 4. Revenue

	2019 $	2018 $
Sales revenue		
Sale of goods	26,349	59,104
Services	2,309,345	2,558,630
	2,335,694	2,617,734
Other revenue		
R&D incentive grant	606,070	-
Export market development grant	58,099	-
Other revenue	2,476	8,275
	666,645	8,275
Revenue	3,002,339	2,626,009

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.

Cost of sales

- Decreased by $394,799 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 with the majority of sales coming from our direct channels.The new automatic fulfillment of eSIM has resulted in reduction in fulfillment and support cost requirements.

Administration

- Salaries, wages and associated employment costs reduced by $626,809, a 36% reduction on FY18 in line with restructuring implemented in the year savings. Further wage savings were implemented in Q4 FY19 that have been built into the FY20 budgets.
- Restructuring in the third and fourth quarter of the 2018 financial year, has resulted in reduction of the following costs by the amounts indicated.
  - Legal, accounting and audit expenses: $106,295
  - Travel expenses: $36,010
  - Marketing: $25,612
  - IT and Communications expenses: $24,109
  - Phones and Internet expenses: $53,828

All other expenses remained comparable or in line with the previous year.

Note 6. Current assets - cash and cash equivalents

	2019 $	2018 $
Cash on hand	-	455
Cash at bank	484,526	780,252
Cash on deposit	40,364	575,185
Paypal	1,000	-
	525,890	1,355,892

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

	2019 $	2018 $
Plant and equipment - at cost	58,663	56,999
Less: Accumulated depreciation	(32,285)	(25,807)
	26,378	31,192
Furniture, fixtures and fittings - at cost	45,746	45,746
Less: Accumulated depreciation	(45,746)	(7,893)
	-	37,853
Computer equipment - at cost	85,520	77,107
Less: Accumulated depreciation	(70,957)	(61,143)
	14,563	15,964
Right-of-use assets - property leases	509,975	739,094
Less: Accumulated depreciation	(458,900)	(462,717)
	51,075	276,377
	92,016	361,386

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 $	Right-of-use assets - property leases $	Total $
Balance at 1 July 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
Additions	1,664	-	8,413	-	10,077
Right-of-use asset derecognised	-	-	-	(60,357)	(60,357)
Depreciation expense	(6,478)	(37,853)	(9,814)	(164,945)	(219,090)
Balance at 30 June 2019	26,378	-	14,563	51,075	92,016

Note 8. Non-current assets - intangibles

	2019 $	2018 $
Goodwill - at cost	-	16,016,577
Less: Impairment	-	(16,016,577)
	-	-
Patents, trademarks and other rights - at cost	6,413	6,413
Web development - at cost	1,520,864	1,388,617
Less: Accumulated amortisation	(944,946)	(602,002)
	575,918	786,615
Software - at cost	2,781,000	2,518,492
Less: Accumulated amortisation	(1,811,523)	(1,329,565)
	969,477	1,188,927
	1,551,808	1,981,955

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 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
Additions	-	-	132,247	262,508	394,755
Amortisation expense	-	-	(342,944)	(481,958)	(824,902)
Balance at 30 June 2019	-	6,413	575,918	969,477	1,551,808

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

Note 9. Current liabilities - borrowings

	2019 $	2018 $
Promissory note - related party	155,692	315,454
Lease liability	49,063	190,250
	204,755	505,704

Note 10. Non-current liabilities - borrowings

	2019 $	2018 $
Lease liability	-	87,188

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 2019 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

	2019 $	2018 $
Loss after income tax attributable to the owners of United Networks Limited	(1,132,092)	(19,268,609)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	125,824,949	125,824,949
Weighted average number of ordinary shares used in calculating diluted earnings per share	125,824,949	125,824,949
	Cents	**Cents**
Basic earnings per share	(0.90)	(15.31)
Diluted earnings per share	(0.90)	(15.31)