United Networks Limited

ABN 60 607 921 246

Appendix 4E - Preliminary Final Report - 30 June 2017

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 2017
Previous period:	For the year ended 30 June 2016

2. Results for announcement to the market

Commentary below is a summary of a more detailed investor presentation progress update lodged with the ASX on 31 July 2017. United encourages investors to read through the detailed information already released in line with this commentary.

				$
Revenues from ordinary activities	**down**	**17.5%**	**to**	**6,236,046**
Loss from ordinary activities after tax attributable to the owners of United Networks Limited	down	407.8%	to	(1,037,177)
Loss for the year attributable to the owners of United Networks Limited	down	407.8%	to	(1,037,177)

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 $1,037,177 (30 June 2016: profit of $337,001).

- FY17 was a year in which management spent considerable time on IPO related activities, building new product and onboarding key partners. In the period the following key initiatives were achieved:
- Completion of the ASX Listing on 12 January 2017.
- Launching of the new Unlimited Wi-Fi App in February 2017.
- Launching of Chubb Wi-Fi App in May 2017 and subsequent to year end Chubb- American Express solution in July 2017 and extending this offering across multiple countries.
- Employment of a Chief Operating Officer (COO) in March 2017 and subsequent business development resources in the following months.
- Migration of the key partner from a cost sharing model to a commission only model as of 1 December 2016.
- Ongoing investment and development of the GAP platform and product optimisation.

The significant proportion of the loss incurred was a result of the following items:
- Non-recurring costs relating to the IPO expensed in the year of $445K.
- Increased cost of management and business development resources which were employed to execute the growth strategy.
- Increased investment in the deployment of 2 new global partner opportunities with the Wi-Fi App which as at July 2017 are now available across 3 countries.
- Increased costs of ensuring the security of the GAP platform including penetration and vulnerability testing conducted across all sites and locations.
- On going audit, compliance and listing costs of $202K.

Revenue for the period is down 17.5% on the previous period as a result of the following items:
- A change in revenue model with our key partner that took effect on the 1st of December 2016 resulting in delayed revenue recognition and a new commission only model for the partner. With unearned/unbooked revenue as at the year end growing to $332K.
- Decreased order volume as a result of a technical issue in the change of offer process that is in the process of being rectified.
- Delays in onboarding and rollout of the 2 new key global partners for the Wi-Fi App resulted in targets not being achieved for the period.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	3.42	(0.87)

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

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

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Audit statement

This report is based on accounts that are in the process of being audited.

10. Attachments

The condensed financial statements of United Networks Limited for the year ended 30 June 2017 is attached.

11. Signed

Signed ______________________________ Date: 31/08 ____________________ 2017

Anthony Ghattas
Chairman
Sydney

United Networks Limited
Condensed consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	2017 $	2016 $
Revenue	4	6,236,046	7,558,452
Other income		12,733	-
Expenses			
Cost of sales		(3,537,527)	(4,318,006)
Marketing		(71,451)	(120,703)
Occupancy		(55,764)	(11,556)
Administration		(2,199,018)	(1,882,968)
Other expenses		(1,376,068)	(877,743)
Finance costs		(106,050)	(72,731)
Profit/(loss) before income tax benefit		(1,097,099)	274,745
Income tax benefit		59,922	62,256
Profit/(loss) after income tax benefit for the year attributable to the owners of United Networks Limited		(1,037,177)	337,001
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of United Networks Limited		(1,037,177)	337,001
		Cents	**Cents**
Basic earnings per share	14	(0.97)	0.40
Diluted earnings per share	14	(0.97)	0.40

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

United Networks Limited
Condensed consolidated statement of financial position
As at 30 June 2017

	Note	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents	6	4,214,949	509,297
Trade and other receivables		1,896,706	1,489,994
Inventories		131,975	57,450
Other		59,322	46,922
Total current assets		6,302,952	2,103,663
Non-current assets			
Other financial assets		-	18,150
Property, plant and equipment	7	506,047	726,027
Intangibles	8	17,876,073	17,499,725
Deferred tax		762,620	549,152
Other		-	262,094
Total non-current assets		19,144,740	19,055,148
Total assets		25,447,692	21,158,811
Liabilities			
Current liabilities			
Trade and other payables		1,573,503	1,695,121
Borrowings	9	992,223	1,177,590
Income tax		-	22,924
Provisions		129,051	116,845
Total current liabilities		2,694,777	3,012,480
Non-current liabilities			
Borrowings	10	231,088	1,243,883
Deferred tax		343,678	188,897
Total non-current liabilities		574,766	1,432,780
Total liabilities		3,269,543	4,445,260
Net assets		22,178,149	16,713,551
Equity			
Issued capital	11	24,278,800	17,777,025
Accumulated losses		(2,100,651)	(1,063,474)
Total equity		22,178,149	16,713,551

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

United Networks Limited
Condensed consolidated statement of changes in equity
For the year ended 30 June 2017

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2015	120	(1,400,475)	(1,400,355)
Profit after income tax benefit for the year	-	337,001	337,001
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	337,001	337,001
Transactions with owners in their capacity as owners:			
Contributions of equity, net of transaction costs (note 11)	17,776,905	-	17,776,905
Balance at 30 June 2016	17,777,025	(1,063,474)	16,713,551

	Issued capital $	Accumulated losses $	Total equity $
Balance at 1 July 2016	17,777,025	(1,063,474)	16,713,551
Loss after income tax benefit for the year	-	(1,037,177)	(1,037,177)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(1,037,177)	(1,037,177)
Transactions with owners in their capacity as owners:			
Contributions of equity, net of transaction costs (note 11)	6,501,775	-	6,501,775
Balance at 30 June 2017	24,278,800	(2,100,651)	22,178,149

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

United Networks Limited
Condensed consolidated statement of cash flows
For the year ended 30 June 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		6,481,632	7,459,615
Payments to suppliers (inclusive of GST)		(6,710,418)	(7,926,315)
		(228,786)	(466,700)
Interest received		59,473	(4,481)
Interest and other finance costs paid		(136,209)	1,397
Net cash used in operating activities		(305,522)	(469,784)
Cash flows from investing activities			
Payments for property, plant and equipment		(5,466)	(191,697)
Payments for intangibles		(961,393)	(559,539)
Loans advanced to other entities		(40,084)	-
Proceeds from disposal of investments		21,029	-
Proceeds from disposal of property, plant and equipment		13,519	-
Net cash used in investing activities		(972,395)	(751,236)
Cash flows from financing activities			
Proceeds from issue of shares	11	7,133,500	2,030,250
Proceeds from borrowings		145,137	211,995
Share issue transaction costs and other transaction costs attributable to the listing		(1,079,778)	-
Repayment of borrowings		(1,215,290)	(628,889)
Net cash from financing activities		4,983,569	1,613,356
Net increase in cash and cash equivalents		3,705,652	392,336
Cash and cash equivalents at the beginning of the financial year		509,297	116,961
Cash and cash equivalents at the end of the financial year	6	4,214,949	509,297

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

Note 1. Statement of significant accounting policies

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

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

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

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

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

Note 2. Critical accounting judgements, estimates and assumptions

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

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

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

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

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

Note 3. Operating segments

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

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

Note 4. Revenue

	2017 $	2016 $
Sales revenue		
Sale of goods	336,022	510,754
Services	4,806,478	6,415,904
	5,142,500	6,926,658
Other revenue		
Dividends	-	315
Interest	59,473	2,848
R&D incentive grant	1,019,502	567,820
Other revenue	14,571	60,811
	1,093,546	631,794
Revenue	6,236,046	7,558,452

● An amount of $419K in excess of the FY16 R&D grant accrual was received in the year. An accrual of $600K has been made for FY17 which is inline with the previous year.

Note 5. Expenses

A review of expenses shows that the following expenses increased over the period from the previous year. These items can be split into 3 key areas:

ASX listing recurring and non-recurring expenses
● Fees relating to the ongoing recurring compliance including Audit, Insurance and ASX listing increased by $164K from $38K to $202K in the period.
● Non-recurring IPO related costs expensed in the period of $445K.

Management and Business Development
● Salaries and wages increased by $165K as a result of the new management and business development employed post the IPO to expedite new opportunities for the business.
● Expenses relating to business development and marketing increased as result of the 2 new global partnerships announced in the period.

Increased IT and Security
● Increased by $60K to $340K in the period as a result of increased security and vulnerability and penetration testing completed in the year and deployment of additional websites and resources for new partners.

All other expenses remained comparable or inline with the previous year.

Note 6. Current assets - cash and cash equivalents

	2017 $	2016 $
Cash on hand	99	232
Cash at bank	158,236	454,045
Cash on deposit	4,056,614	55,020
	4,214,949	509,297

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

	2017 $	2016 $
Plant and equipment - at cost	54,630	49,653
Less: Accumulated depreciation	(18,238)	(14,783)
	36,392	34,870
Furniture, fixtures and fittings - at cost	45,746	45,746
Less: Accumulated depreciation	(6,254)	(4,374)
	39,492	41,372
Computer equipment - at cost	69,091	72,601
Less: Accumulated depreciation	(50,560)	(40,739)
	18,531	31,862
Office equipment - at cost	-	1,317
Right-of-use assets - property leases	689,410	793,309
Less: Accumulated depreciation	(277,778)	(176,703)
	411,632	616,606
	506,047	726,027

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

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

	Plant and equipment $	Furniture, fixtures and fittings $	Computer equipment $	Office equipment $	Right-of-use assets - property leases $	Total $
Balance at 1 July 2015	9,253	43,697	22,251	-	-	75,201
Additions	39,806	-	19,376	1,317	793,309	853,808
Depreciation expense	(14,189)	(2,325)	(9,765)	-	(176,703)	(202,982)
Balance at 30 June 2016	34,870	41,372	31,862	1,317	616,606	726,027
Additions	4,221	-	1,245	-	140,387	145,853
Disposals	(516)	-	(3,871)	-	-	(4,387)
Right-of-use asset derecognised	-	-	-	-	(189,873)	(189,873)
Transfers in/(out)	1,317	-	-	(1,317)	-	-
Depreciation expense	(3,500)	(1,880)	(10,705)	-	(155,488)	(171,573)
Balance at 30 June 2017	36,392	39,492	18,531	-	411,632	506,047

Note 8. Non-current assets - intangibles

	2017 $	**2016 $**
Goodwill - at cost	16,016,577	16,016,577
Patents, trademarks and other rights - at cost	6,413	6,413
Web development - at cost	1,074,445	790,062
Less: Accumulated amortisation	(298,210)	(98,220)
	776,235	691,842
Software - at cost	1,940,165	1,278,317
Less: Accumulated amortisation	(863,317)	(493,424)
	1,076,848	784,893
	17,876,073	17,499,725

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

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 2015	-	6,413	613,558	471,784	1,091,755
Additions	-	-	290,225	-	290,225
Additions through business combinations	16,016,577	-	-	570,352	16,586,929
Amortisation expense	-	-	(211,941)	(257,243)	(469,184)
Balance at 30 June 2016	16,016,577	6,413	691,842	784,893	17,499,725
Additions	-	-	284,382	661,848	946,230
Amortisation expense	-	-	(199,989)	(369,893)	(569,882)
Balance at 30 June 2017	16,016,577	6,413	776,235	1,076,848	17,876,073

Impairment testing
For the purpose of impairment testing, goodwill is allocated to a cash-generating unit or to a group of cash-generating units that are expected to benefit, among others, from the synergies of the business combination. The Group's cash-generating units are defined on the basis of the geographical market, normally country-related. The consolidated entity operates in primarily one geographical segment - Australia, and the carrying amount of goodwill has been allocated to Australia.

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 1 year projection period approved by management and extrapolated for a further 4 years using a steady rate, together with a terminal value.

The following key assumptions were used in the discounted cash flow model:
(a) Pre-tax discount rate of 13.3% per annum;
(b) Revenue growth is based on management projections for 2018, and 5% increases for 2019 - 2022;
(c) Budgeted gross margin of 51%;
(d) Operating expenses are based on management projections for 2018, and 2.5% increases for 2019 - 2022;
(e) Long-term growth rate of 2.5%.

The discount rate of 13.3% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk-free rate and the volatility of the share price relative to market movements.

Management believes the 2018 revenue projection and 5% increases through to 2022 is achievable and justified, based on the projected growth of new products and partners, two of which have been signed on since year-end and the roll-out is actively in place through out Asia-Pacific.

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

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

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

Based on the above, the recoverable amount of the goodwill exceeded the carrying amount by $2,258,045.

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

Sensitivity
As disclosed in note 2, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:
(a) A reduction in the revenue growth rate of 6% below management expectations for 2018 financial year would result in impairment, with all other assumptions remaining constant.
(b) A reduction in the revenue growth rate to 4% for the 2019 - 2022 financial years would result in impairment, with all other assumptions remaining constant.
(c) A reduction in the gross margin to 48% for the 2019 - 2022 financial years would result in impairment, with all other assumptions remaining constant.
(d) The discount rate would be required to increase to 13.9% before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

Note 9. Current liabilities - borrowings

	2017 $	2016 $
Bank overdraft	-	887
Promissory note - related party	811,679	212,669
Loan - related party	-	787,331
Lease liability	180,544	176,703
	992,223	1,177,590

Note 10. Non-current liabilities - borrowings

	2017 $	2016 $
Promissory note - related party	-	803,981
Lease liability	231,088	439,902
	231,088	1,243,883

Note 11. Equity - issued capital

	2017 Shares	2016 Shares	2017 $	2016 $
Ordinary shares - fully paid	125,824,949	90,157,449	24,278,800	17,777,025

Initial Public Offering
On 12 January 2017, the company was admitted to the official list of the Australian Securities Exchange (ASX). The settlement of the issue or transfer of shares as part of the company's initial public offering on 12 January 2017 resulted in the issue of 35,667,500 ordinary shares at the offer price of 20 cents per ordinary share. Transaction costs of $631,725 were recognised directly in equity which represents the portion of transaction costs attributable to the issuance of new shares. Transaction costs of $444,703 attributable to the listing were recognised in the consolidated statement of profit or loss and other comprehensive income in the current reporting period.

Note 12. Equity - dividends

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

Note 13. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 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 14. Earnings per share

	2017 $	2016 $
Profit/(loss) after income tax attributable to the owners of United Networks Limited	(1,037,177)	337,001
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	106,769,709	84,187,858
Weighted average number of ordinary shares used in calculating diluted earnings per share	106,769,709	84,187,858
	Cents	**Cents**
Basic earnings per share	(0.97)	0.40
Diluted earnings per share	(0.97)	0.40