YPB continues trend of improved results in H1 2019

- **Loss before income tax 21% lower in H1 2019 versus pcp**
- **H2 2019 expected to see further significant financial improvement**
- **Evidence of H1 operational and client progress expected in H2**

Product authentication and consumer engagement solutions provider YPB Group Limited (ASX:YPB) comments on the financial results for the half year ended 30 June 2019.

Operating loss continues improving trend

H1 2019 saw continuation of the now consistent trend of a reduced operating loss. A sharp fall in revenue was offset by higher gross margin, lower costs and non-operating items, reducing the pre-tax operating loss by 21% from $4.7m in H1 2018 to $3.7m in H1 2019.

Eliminating the non-operating items, business performance still showed clear improvement with a 14% fall in pre-tax operating loss in H1 2019 versus pcp. The key drivers of the result were:

- Revenue down 41% - this was due to Retail Anti-Theft (RAT) unit being re-structured and staff being removed. The July 2019 4C commentary noted RAT was under review and it has been decided to exit this business. The sector is competitive, low margin and a distraction from the significant opportunities in the much more profitable and prospective YPB technology solutions.
- Production costs down 51% - due to RAT weakness.
- Gross margin up to 75% in H1 2019 from 68% in pcp – proportionally greater sales of own IP products;
- Operating costs down 18% on pcp to $2.7m - headcount reduction, operational streamlining and insourcing of previously outsourced functions. The momentum of cost reduction will be more evident in H2 2019 with full-period benefit of prior actions. Key movers in cost items were:
  - Staff and consulting fees down 10% - headcount and high-cost staff cuts driven with significantly greater H2 benefit to come;
  - Professional fees down 61% - inhousing of finance function;
  - Travel down 51% - lower headcount and fewer unproductive sales trips following a tighter geographic focus;
  - R&D down 26% - insourcing of Connect development to YPB's IT hub in Bangkok from previously outsourced developers;
  - Rent down 32% - rationalisation of premises; and
  - Other down 33% - numerous cost initiatives.

H1 2019 operating highlights

As noted in the July 2019 4C commentary, significant progress was made in executing the refreshed operating plan. That plan has five key elements:

- **Verticals** - Focus on wine and dairy, health and beauty, pharma, and legal cannabis;
- **High need** - Emphasise brands exporting to or operating in high counterfeit risk geographies;
- **Leveraged channel partners** - Rekindle and strike new partnerships with key packaging suppliers to brands to gain leveraged market access and reach;
- **Market readiness** - Increase the robustness of the key ProtectCode™ and Connect technologies while refining their sales process and collateral; and
- **Develop** Motif Micro to commercial readiness.

Pleasing progress has been made on all fronts:

- Engagement with prominent brands in all focus sectors is high;
- Access partners such as Orora (ASX: ORA) and Impact Tubes are advancing plans with targetted customers;
- New channel partners are actively working with YPB in presenting solutions to their customers;
- ProtectCode has become a readily understood and thus more saleable product;
- Connect is now a robust software platform capable of recording authentication scans and engaging directly with consumers globally (anywhere there is a mobile network), including behind the technically challenging great firewall of China; and
- Motif Micro technical progress is significant and a more detailed update on key milestones is expected to be released to the market in the near future.

More specifically, operational achievements announced in H1 included:

- The co-launch of Vintail with Seppeltsfield Wines. Vintail is a high-end authentication and engagement solution for higher value wines but is also potentially relevant to other high value consumer goods (e.g. health and beauty). Vintail is a highly innovative solution solving multiple significant problems especially "tamper evidence". YPB's Vintail solution is highly relevant to Australian wine exporters to China and Asia where a major issue is re-use and re-filling of the originally exported wine bottles.
- The adoption of YPB tracer thread by one of the world's largest cotton garment manufacturers, Esquel Group, in China.
- The appointment of PT Meidanum Imperii as a channel partner in Indonesia where it will focus on medical equipment and packaging for beauty, cosmetics, food and beverage and baby products.

Board changes

Mr Philip Wade joined the YPB board as a Non-Executive Director upon shareholder approval at the 17 June 2019 AGM.

Mr Anoosh Manzoori resigned on 4 June 2019 after a short but valuable contribution to YPB due to the pressure of other commitments.

Funding

Post quarter end, on 30th July 2019, the company raised A$1.6m via an over-subscribed new equity placement at 0.714 cents, a 25% discount to the 15-day VWAP.

A short-term working capital line was negotiated and drawn in Q2. It was fully repaid in early August 2019.

The board is highly conscious of the impact on shareholders of equity issuance at low prices. Intense effort toward a self-sustaining business remains in sharp focus.

YPB Group CEO John Houston said: "The improvement in our results in H1 2019 is pleasing but well short of where we intend to drive YPB's results. A dramatic improvement in our results can happen surprisingly quickly. We have a number of revenue-dial-shifting opportunities in train. Should one or more of those successfully conclude, together with continued cost-out momentum, revenues can rapidly move to dominate costs. That prospect is real and our sole focus to restore and grow shareholder value."

Ends.

For further information please contact:

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About YPB Group

YPB Group Limited (ASX:YPB) is an Australia-based product authentication and consumer engagement solutions provider. YPB's proprietary smartphone enabled technology suite allows consumers to confirm product authenticity and, for brands, that triggers consumers' engagement.

The combination of YPB's smartphone authentication solutions and its SaaS Connect platform, creates 'smart' product packaging, opening cost-effective, digital and direct marketing channels between brands and their consumers. Connect gathers actionable data on consumer preferences. It can then host tailored marketing campaigns directly back to the scanning smartphone.

YPB's technology is also trusted by the world's largest passport issuing nation to ensure the authenticity of its passports. YPB is currently focused on the rapidly growing Australian, South East Asian, and Chinese markets. Its focus is dairy, cannabis, alcohol and cosmetics where the viral growth of fake products, particularly in Asia, affects brand value and endangers consumers. To learn more please visit: www.ypbsystems.com

YPB Group Ltd
Appendix 4D
Half-year report

1. Company details

Name of entity:	YPB Group Ltd
ACN:	108 649 421
Reporting period:	For the half-year ended 30 June 2019
Previous period:	For the half-year ended 30 June 2018

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	40.7%	to	597
Loss from ordinary activities after income tax expense for the half-year attributable to the owners of YPB Group Ltd	down	17.5%	to	(3,587)
Loss for the half-year attributable to the owners of YPB Group Ltd	down	17.5%	to	(3,587)

Comments
The loss for the Consolidated Entity, after providing for income tax amounted to $3,587,000 (30 June 2018: $4,346,000). The operating loss includes a number of non-cash & significant items (amortisation/fair value adjustments/share-based payments and impairment charges) which leaves an underlying cash out flow from operations of $1,650,000 (30 June 2018: $3,004,000). Revenue for the period was $597,000 (30 June 2018: $1,007,000) which represents a 40.7% decrease on the prior period.

3. Net tangible liabilities

	30 June 2019 Cents	30 June 2018 Cents
Net tangible liabilities per ordinary security	(0.36)	(0.32)

4. Gain and loss of control over entities

Not applicable.

5. 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.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

No changes since the previous annual report was released.

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8. Foreign entities

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

Not applicable.

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9. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The consolidated financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

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10. Attachments

Details of attachments (if any):

The Interim Report of YPB Group Ltd for the half-year ended 30 June 2019 is attached.

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11. Signed

Signed ________________________________ Date: 30th August 2019

YPB Group Ltd

ACN 108 649 421

Interim Report – 30 June 2019

The directors present their report and the consolidated financial statements of YPB Group Ltd (the “Company”) and its controlled entities (the “Consolidated Entity”) for the half-year ended 30 June 2019.

1. Directors and Secretary

For the period under review and covered by this report, the following persons were directors of the Company. Directors have been in office since the start of the half-year to the date of this report, unless otherwise stated.

	Date Appointed	Date Resigned
Executive Chairman		
John Houston	31 July 2014	
Non-Executive Directors		
Su (George) Su	31 July 2014	
Gerard Eakin	4 March 2016	
Philip Wade	16 May 2019	
Anoosh Manzoori	19 December 2018	4 June 2019

Mr Robert Whitton was the Company Secretary for the half year under review up until 16 January 2019. Mr Adam Gallagher has since then been appointed as the Company Secretary. With effect from 25 June 2019, the Company has appointed Sebastian Andre as a joint Corporate Secretary with Adam Gallagher. On 26 August 2019, Adam Gallagher resigned as the Corporate Secretary.

2. Principal Activities

The principal activities of the Company during the half-year was as a sales, marketing and developer of anti-counterfeiting, product authentication, and consumer engagement solutions to brand owners globally.

3. Review of Operations

The consolidated loss of the Consolidated Entity after providing for income tax amounted to $3,587,000 (30 June 2018: $4,346,000). The operating loss includes a number of significant non-cash items, including amortisation and impairment charges, fair value adjustments, and share-based payments, which leaves an underlying cash outflow from operations of $1,650,000 (30 June 2018: $3,004,000). Revenue for the period was $597,000 (30 June 2018: $1,007,000), which represents a 41% decrease over the comparative period.

On 7 January 2019, the final payment of $205,000 (US$145,000) was made to close out the loan facility provided by Bracknor Worldwide Investments Ltd (“Bracknor”).

On 11 January 2019, 21,000,000 shares were issued for conversion of employee performance rights to ordinary shares.

On 16 January 2019, Mr Adam Gallagher was appointed as Company Secretary.

On 20 February 2019, $1,100,000 was raised via a placement to sophisticated and institutional investors. Proceeds from this placement were used for the further development and commercialisation of Motif Micro, business development activities and as general working capital.

On 21 February 2019, existing distribution partner and e-commerce leader in the cannabis market, Namaste Technologies, has agreed to broaden the use of YPB’s product markers to all products on Namaste’s e-commerce platforms.

On 28 February 2019, 3,000,000 unlisted options with an exercise price of $0.50 expired and 3,000,000 unlisted options with an exercise price of $0.75 expired.

On 1 March 2019, 5,555,555 Ordinary shares issued at $0.009 per share due to the conversion of convertible notes issued on 3 December 2018. 5,555,555 options with an exercise price of $0.025 were issued in accordance with the terms of conversion of the convertible notes.

3. Review of Operations (cont'd)

On 24 March 2019, 173,000 options with an exercise price of $0.35 expired and 173,000 options with an exercise price of $0.50 expired.

On 03 April 2019, the Group signed an MOU with LINCD HQ PTY LTD ("LINCD") to create the YPB token.

On 16 May 2019, Mr Philip Wade joined YPB Board as a Non-Executive Director.

On 27 May 2019, one of the world's largest cotton garment makers, Esquel Group, adopts YPB's anti-counterfeit fibre.

On 28 May 2019, 75 million ProtectCodes issued.

On 4 June 2019, Mr Anoosh Manzoori resigned as a Non-Executive Director

On 18 June 2019, Seppeltsfield Wines signed a Master Services Agreement for the supply of YPB's brand authenticity solutions for select lines.

On 25 June 2019, Mr Sebastian Andre appointed as joint Company Secretary.

On 26 June 2019, the token project was terminated.

On 17 July 2019, unlisted 3,800,000 options with an exercise price of $0.035 expired.

On 19 July 2019, a one year plus a further one year renewal Master Supply Agreement (MSA) was signed with Halo Labs Inc. (NEO: HALO; OTCQX: AGEEF; FRA: A9KN).

On 29 July 2019, significant milestone of over 100 million proprietary QR Codes ("ProtectCodes") issued to existing customers of the Connect Platform.

On 1 August 2019, $1,600,000 was raised via a placement to sophisticated and institutional investors. Proceeds from this placement were used for the further development and commercialisation of Motif Micro, business development activities and as general working capital.

On 26 August 2019, Adam Gallagher resigned as the Corporate Secretary.

4. Events Subsequent to Balance Sheet Date

On 30 July 2019, the Group entered into a trading halt, and on 2 August 2019, the Group resumed trading subsequent to a successful additional capital raise of $1,600,000. An EGM was held on 16 August 2019 to approve new shares that would allow a placement of up to $2,500,000.

Other than the above, no other matters or circumstances have 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.

5. Rounding of Amounts

The Company is an entity to which ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 applies, and accordingly, amounts in the consolidated financial statements and directors' report have been rounded to the nearest thousand dollars.

6. Auditor’s Independence Declaration

A copy of the auditor’s independence declaration as required under Section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to Section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

John Houston
Executive Chairman

Dated: 30th August 2019

YPB GROUP LIMITED
ACN 108 649 421
AND ITS CONTROLLED ENTITIES

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Australia

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AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF YPB GROUP LIMITED

In accordance with S307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of YPB Group Limited. As the lead audit partner for the review of the financial report of YPB Group Limited for the half-year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Hall Chadwick

HALL CHADWICK
Level 40, 2 Park Street
Sydney NSW 2000

GWebb

GRAHAM WEBB
Partner
Dated: 30 August 2019

Contents

YPB Group Ltd
Consolidated statement of profit or loss and other comprehensive income (loss)
For the half-year ended 30 June 2019

	Note	30 June 2019 $'000	30 June 2018 $'000
Revenue	4	597	1,007
Expenses			
Consulting fees		(697)	(868)
Depreciation and amortisation expense		(103)	(123)
Directors' fees		(52)	(40)
Employee benefits expense		(1,294)	(1,352)
Finance costs		(94)	(61)
Production costs		(152)	(312)
Rental expenses		(103)	(152)
Option expense		(6)	-
Research and development costs		(172)	(232)
Marketing costs		(92)	(50)
Travelling expenses		(110)	(225)
Share-based payments		(38)	(47)
Regulatory expense		(66)	(78)
Professional fees		(85)	(219)
Inventories written-off		-	(50)
Impairment of intangible assets		-	(2,356)
Other expenses		(306)	(458)
Exchange (loss)/gain		(932)	937
Loss before income tax benefit		**(3,705)**	**(4,679)**
Income tax benefit		118	333
Loss after income tax benefit for the half-year attributable to the owners of YPB Group Ltd		**(3,587)**	**(4,346)**
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		494	(426)
Other comprehensive loss for the half-year, net of tax		**494**	**(426)**
Total comprehensive loss for the half-year attributable to the owners of YPB Group Ltd		**(3,093)**	**(4,772)**
		Cents	**Cents**
Basic and diluted earnings per share	11	(0.41)	(0.73)

The above consolidated statements of loss and other comprehensive income (loss) should be read in conjunction with the accompanying notes

YPB Group Ltd
Consolidated statement of financial position
As at 30 June 2019

	Note	30 June 2019 $'000	31 December 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		129	487
Trade and other receivables		355	701
Inventories		247	282
		731	**1,470**
Non-current assets			
Plant and equipment		393	184
Intangibles	5	8,105	8,443
		8,498	**8,627**
Total assets		**9,229**	**10,097**
Liabilities			
Current liabilities			
Trade and other payables	6	2,239	1,572
Lease liabilities		122	-
Borrowings		500	-
Deferred revenue		74	144
Financial liabilities – convertible notes	7	1,468	1,723
		4,403	**3,439**
Non-current liabilities			
Lease liabilities		132	-
Total liabilities		**4,535**	**3,439**
Net assets		**4,694**	**6,658**
Equity			
Issued capital	8	63,103	61,980
Reserves	8	3,686	3,385
Accumulated losses		(62,095)	(58,707)
Total equity		**4,694**	**6,658**

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

YPB Group Ltd
Consolidated statement of changes in equity
For the half-year ended 30 June 2019

Consolidated	Issued capital $'000	Issued options reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Warrant options reserve $'000	Share based payment reserve $'000	Total equity $'000
Balance at 1 January 2018	49,124	302	2,091	(51,726)	256	1,091	1,138
Loss after income tax expense for the half-year	-	-	-	(4,346)	-	-	(4,346)
Other comprehensive income for the half-year, net of tax	-	-	(426)	-	-	-	(426)
Total comprehensive loss for the half-year	-	-	(426)	(4,346)	-	-	(4,772)
Transactions with owners, in their capacity as owners:							
Share issued, net of transactions costs	9,521	-	-	-	-	-	9,521
Options lapsed during the period	-	(5)	-	5	-	-	-
Share based payments	-	-	-	-	-	47	47
Balance at 30 June 2018	58,645	297	1,665	(56,067)	256	1,138	5,934

Consolidated	Issued capital $'000	Issued options reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Warrant options reserve $'000	Share based payment reserve $'000	Total equity $'000
Balance at 1 January 2019	61,980	1,106	1,133	(58,707)	-	1,146	6,658
Loss after income tax expense for the half-year	-	-	-	(3,587)	-	-	(3,587)
Other comprehensive income for the half-year, net of tax	-	-	494	-	-	-	494
Total comprehensive loss for the half-year	-	-	494	(3,587)	-	-	(3,093)
Transactions with owners, in their capacity as owners:							
Share issued, net of transactions costs	1,035	-	-	-	-	-	1,035
Options granted during the period	-	6	-	-	-	-	6
Options lapsed during the period	-	(199)	-	199	-	-	-
Conversion of convertible notes to equity	50	-	-	-	-	-	50
Share based payments	38	-	-	-	-	-	38
Balance at 30 June 2019	63,103	913	1,627	(62,095)	-	1,146	4,694

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

YPB Group Ltd
Consolidated statement of cash flows
For the half-year ended 30 June 2019

	30 June 2019 $'000	30 June 2018 $'000
Cash flows used in operating activities		
Receipts from customers	963	1,278
Payments to suppliers and employees	(2,519)	(4,288)
Interest received	-	15
Finance costs	(94)	(9)
Net cash used in operating activities	**(1,650)**	**(3,004)**
Cash flows used in investing activities		
Payment for plant and equipment	(1)	(39)
Payment for intangibles	-	(1,444)
Net cash used in investing activities	**(1)**	**(1,483)**
Cash flows from financing activities		
Proceeds from issue of shares (net of costs)	998	5,539
Proceeds from borrowings	500	-
Repayment of borrowings	(205)	(1,528)
Net cash from financing activities	**1,293**	**4,011**
Net decrease in cash and cash equivalents	(358)	(476)
Cash and cash equivalents at the beginning of the financial half-year	487	845
Cash and cash equivalents at the end of the financial half-year	**129**	**369**

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

Note 1. General information

These consolidated financial statements and notes to the consolidated financial statements cover YPB Group Ltd and the entities it controlled at the end of, or during, the half-year (the "consolidated entity" or "group". The separate financial statements of the parent entity, YBP Group Limited, have not been presented within this financial report as permitted by the Corporations Act 2001. The consolidated financial statements are presented in Australian dollars, which is YPB Group Ltd's functional and presentation currency.

The company is a listed public company incorporated and domiciled in Australia. Its registered office in Australia is Level 29, 66 Goulburn Street, Sydney NSW 2000.

The consolidated financial statements were authorised for issue, in accordance with a resolution of directors, on 30th August 2019.

Note 2. Significant accounting policies

These general purpose consolidated financial statements for the half-year ended 30 June 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose consolidated financial statements do not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, these consolidated financial statements are to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year, except as stated below.

New, revised or amending Accounting Standards and Interpretations adopted
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Consolidated Entity's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019.

The Consolidated Entity has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Consolidated Entity applies, for the first time, IFRS 16 Leases. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim consolidated financial statements.

AASB 16 *Leases*

IFRS 16 introduced a single on-balance sheet accounting model for lessees. As a result, the Consolidated Entity, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Consolidated Entity has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in the retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the change in accounting policies are disclosed below.

Note 2. Significant accounting policies (cont'd)

Definition of a lease

Previously, the Consolidated Entity determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Consolidated Entity now assess whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Consolidated Entity elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Consolidated Entity allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lease, the Consolidated Entity has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Consolidated Entity leases mainly properties. As a lessee, the Consolidated Entity previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Consolidated Entity recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on-balance sheet.

However, the Consolidated Entity has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value. The Consolidated Entity recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Consolidated Entity presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment', the same line items as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

	Property, Plant & Equipment					
In $'000	**Computer Equipment**	**Furniture & Fittings**	**Office Equipment**	**Plant & Equipment**	**Right-of-Use Assets**	**Total**
Balance at 1 January 2019	20	105	28	31	-	184
Balance at 30 June 2019	21	74	16	25	257	393

The Consolidated Entity presents lease liabilities separately in the statement of financial position.

Accounting policies

The Consolidated Entity recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Consolidated Entity's incremental borrowing rate. Generally, the Consolidated Entity uses its incremental borrowing rate as the discount rate.

Note 2. Significant accounting policies (cont'd)

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Consolidated Entity has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Consolidated Entity classified property leases as operating leases under IAS 17. These include office and laboratory facilities. The leases typically run for a period of one to three years. Some leases include an option to renew the lease for an additional one to three years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Consolidated Entity's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- Their carrying amounts as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Consolidated Entity applied this approach to its largest property lease; or

- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Consolidated Entity applied this approach to all other leases.

The Consolidated Entity used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

1. Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease terms.

2. Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

3. Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Consolidated Entity is not a lessor during the half year ended 30 June 2019, and during comparative period 2018.

Impacts on transition

On transition to IFRS 16, the Consolidated Entity recognised right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised as below.

In $'000	**1 January 2019**
Right-of-use assets presented in property, plant & equipment	326
Lease liabilities	321
Retained earnings	5

Note 2. Significant accounting policies (cont'd)

When measuring lease liabilities for leases that were classified as operating lease, the Consolidated Entity discounted lease payments using its incremental borrowing rate at 1 January 2019. The borrowing rate applied is 10%.

In $'000	**1 January 2019**
Operating lease commitment at 31 December 2018 as disclosed in the consolidated financial statements	655
Discounted using the incremental borrowing rate at 1 January 2019	469
Recognition exemption for leases with less than 12 months of lease term at transition	(148)
Extension options reasonably certain to be exercised	-
Lease liabilities recognised at 1 January 2019	**321**

Impact for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Consolidated Entity recognised $257,000 of right-of-use assets and $254,000 of lease liabilities as at 30 June 2019.

Also, in relation to those leases under IFRS 16, the Consolidated Entity has recognised depreciation and interest costs, instead of a rental expense. During the six months ended 30 June 2019, the Consolidated Entity recognised $64,000 of depreciation charges and $14,000 of interest costs from these leases.

See Note 3 for the impact on IFRS 16 on segment information and EBITDA.

Critical Accounting Judgments and Key Sources of Estimation and Uncertainty

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated 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 following are the critical judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts recognised in the consolidated financial statements.

Impairment of Intangible Assets other than Goodwill

In the process of evaluating the potential impairment of intangible assets other than goodwill, the Consolidated Entity is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of the industry that is applicable to the underlying technology. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years. 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 underlying technology of Motif Micro is still under constant development and therefore management has considered the carrying value of the patent licence rights to be supported through expected future generation of cash flows from the rollout of the first-time adoption program with an initial partner scheduled to launch during the second half of FY2019 and additional partners in the pipeline that would ramp-up revenues from the commercialisation of Motif Micro technology in FY2020. Furthermore, management is exploring other business strategies to accelerate the development of Motif Micro that would support the carrying amount of the patent license rights.

Note 2. Significant accounting policies (cont'd)

Going concern

The financial statements have been prepared on a going concern basis.

The Directors note that the Group has continued to incur operating losses as it establishes its business model throughout various markets, perform internal restructuring, and to improve the conversion rate of its order pipeline.

The group incurred an operating loss after tax for the half-year of $3,587,000, had net cash outflows from operating activities of $1,650,000 and a deficiency of current assets over current liabilities of $3,672,000. As at 30 June 2019 the Group has cash and cash equivalents of $129,000.

Notwithstanding this, the Group believes there are reasonable grounds that it will be able to pay its debts as and when they fall due, and on that basis the preparation of the consolidated financial statements on a going concern basis is appropriate, considering that:

- The Directors have completed a reforecast of the cash flow for the remainder of the year, supported by both the existing sales contracts as well as reflecting revenue growth expected from the sales pipeline.

- Reliance on further capital raising activities, of which $1,600,000 has been received in August 2019 via an over-subscribed new equity placement. A further placement of up to $2,500,000 is expected to be raised within three months following the shareholder approval at the EGM held on 16 August 2019.

- The Group's exploration of alternative funding mechanisms that includes securing strategic partnerships.

Note 3. Operating segments

The Consolidated Entity is organised into operating segments as outlined below:

Management determines operating segments based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the consolidated financial statements.

Note 3. Operating segments (cont'd)

Types of products and services

For the period ended 30 June 2019, management considers the company to offer its client base a complete end-to-end service and product offering, hence considering its main operations to be represent by one business segment.

The bundled "complete solution offering" encompasses a range of products and services which are available to customers, including:

- Covert forensic products which are invisible particles ('tracers') fused into a product or packaging during or after the manufacturing process and are detectable using YPB's proprietary scanner.
- Forensic laboratory services for the examination of counterfeit products.
- Security consulting services provided to governments, corporations and intellectual property owners for the deterrence of counterfeiting, grey markets, product diversions and fraud.
- Retail anti-theft and labelling solutions effective for mainstream retailers, boutiques and exporters to protect against theft.

Geographical segment information as follows:

	Sales to external customers		Geographical assets	
	30 June 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000
Australia	219	470	139	314
Peoples Republic of China	130	53	430	617
Thailand	124	176	438	367
United States of America	124	308	8,222	8,175
	597	1,007	9,229	9,473

Note 4. Revenue

	30 June 2019 $'000	30 June 2018 $'000
Revenue		
- Sale of goods	455	685
- Rendering of services	142	307
Other revenue		
Interest income	-	15
Total revenue	597	1,007

Note 5. Intangibles

	30 June 2019 $'000	**31 December 2018 $'000**
Goodwill - at cost	3,089	3,089
Less: Accumulated impairment losses	(3,089)	(3,089)
	-	-
Intellectual property - at cost	15,681	16,250
Less: Accumulated amortisation	(4,775)	(4,942)
Less: Accumulated impairment losses	(10,906)	(11,308)
	-	-
Customer relationships - at cost	206	206
Less: Accumulated impairment	(28)	(28)
Less: Accumulated amortisation losses	(178)	(178)
	-	-
Patent licence rights – at cost	8,105	8,443
	8,105	8,443

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

Consolidated	Goodwill $'000	Intellectual property $'000	Customer relationships $'000	Patent licence rights $'000	Total $'000
Balance at 31 December 2018	-	-	-	8,443	8,443
Balance at 1 January 2019	-	-	-	8,443	8,443
Additions	-	-	-	-	-
Exchange differences	-	-	-	(338)	(338)
Impairment charge	-	-	-	-	-
Amortisation expense	-	-	-	-	-
Balance at 30 June 2019	-	-	-	8,105	8,105

Intangible assets, other than goodwill, have finite useful lives. The current period amortisation charge for intangible assets is included under the depreciation and amortisation expense in the statement of profit and loss and other comprehensive income.

Patent Licence Rights

Effective in December 2017, the Group acquired Motif Micro's patented licence rights to develop and commercialise its secure smartphone readable authentication technology. The non-replicable invisible micro-barcode technology works whereby the smartphone becomes the authentication device for uncopiable, invisible and indestructible physical marking technology.

As the technology is still in the development phase the patent licence rights have not been amortised. The progress of the development was hampered due to the financial under-performance during the half year ended 30 June 2019. However, as a result of technical development efforts to improve key features of Motif Micro, the Group is ready to commercially release Motif Micro through a first-time adoption program in certain markets, with the initial partner scheduled to launch during the second half of FY2019. The directors have applied the 'value in use' methodology to access the carrying value of the patent licence rights at 30 June 2019. The half-year impairment assessment was based on a reforecast of the approved annual operating plan ('AOP') and the accompanying five-year outlook.

Note 5. Intangibles (cont'd)

The key assumptions and results arising from the value in use methodology, based on the approved AOP, relating to the commercialisation of the technology include:

- Revenue forecast from the launch of the first-time adoption program in FY2019, with further increases in FY2020 from signing on more partners between $4.1m and $4.6m, with an annual long-term growth rate between 2% and 5% thereafter;
- EBITDA of between $2.4m and $2.8m to be achieved by end of FY2020;
- Discounted cash flow modelling based on remaining life of patent licence rights of 15 years with no terminal value;
- Mid-point WACC of 15.4% assuming a long-term debt/equity ratio of 10 / 90; and
- The group securing sufficient funding to continue as a going concern.

The impairment testing indicated that the recoverable amount of the patent licence rights exceeds the carrying amount and therefore no impairment is considered necessary as at 30 June 2019. The sensitivity analysis conducted by the directors indicates that a downward variation of 10% of the budgeted FY2020 revenue streams still provides headroom.

Note 6. Trade and other payables

	30 June 2019 $'000	31 December 2018 $'000
Trade payables	1,368	979
Accrued expenses	848	555
Other payables	23	38
	2,239	1,572

Note 7. Financial liabilities

		30 June 2019 $'000	31 December 2018 $'000
Current			
Liabilities – Convertible Notes (Sophisticated Investors)	(a)	1,468	1,518
Liabilities – Convertible Notes (Bracknor facility)	(b)	-	205
		1,468	1,723

a) In November 2018, the Group issued convertible loan notes with an aggregate face value of $1,500,000 to sophisticated investors. These convertible notes will accrue interest on its face value daily at an interest rate of 10% per annum, and the noteholders may elect by issuing a conversion notice to the Group to convert the note on or prior to, the maturity date of 22 October 2021.

In February 2019, a conversion notice was issued to the Group to convert $50,000 of these convertible notes into 5,555,555 number of shares and 5,555,555 options. These shares and options were subsequently issued to the convertible note holder on 1 March 2019.

b) During the period, the Group made a final repayment tranche of $205,000 (US$145,000) on 2 January 2019 along with a signed deed that released and discharged the Group from any further obligations including the warrants outstanding.

Note 8. Equity - issued capital

	30 June 2019 Shares	31 December 2018 Shares	30 June 2019 $'000	31 December 2018 $'000
Ordinary shares - fully paid	916,933,479	799,277,924	63,103	61,980

Movements in ordinary share capital

Details	Date	Shares	$'000
Opening balance	1 January 2019	799,277,924	61,980
Issued under share-base payments	11 January 2019	2,100,000	38
Share placement	20 February 2019	110,000,000	1,100
Ordinary shares issued due to the conversion of convertible notes	1 March 2019	5,555,555	50
Less: Transaction costs on share issued, net of tax			(65)
Closing balance	30 June 2019	916,933,479	63,103

Ordinary shares
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 and the company does not have a limited amount of authorised capital.

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.

Movements in options on issue

Details	Date	Options	$'000
Opening balance	1 January 2019	202,278,473	1,106
Options lapsed	28 February 2019	(6,000,000)	(198)
Options granted	1 March 2019	5,555,555	6
Options lapsed	24 March 2019	(346,000)	(1)
Closing balance	30 June 2019	201,488,028	913

Movements in share-based payments

Details	Date	$'000
Opening balance	1 January 2018	1,146
Issued under share-based payments		-
Closing balance	30 June 2019	1,146

Note 8. Equity – reserves

	30 June 2019 $'000	31 December 2018 $'000
Foreign currency translation reserve	1,627	1,133
Options reserve	913	1,106
Share-based payments reserve	1,146	1,146
	3,686	3,385

Foreign currency translation reserve
The foreign currency translation reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign controlled subsidiaries to Australian dollars.

Issued Options reserve
The option reserve records items recognised as expenses on valuation of share options issued.

Share-based payments reserve
The share-based payment reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 9. Dividends

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

Note 10. Events after the reporting period

On 30 July 2019, the Group entered into a trading halt, and on 2 August 2019, the Group resumed trading subsequent to a successful additional capital raise of $1,600,000. An EGM was held on 16 August 2019 to approve new shares that would allow a placement of up to $2,500,000.

Other than the above, 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 11. Earnings per share

	30 June 2019 $'000	30 June 2018 $'000
Loss after income tax attributable to the owners of YPB Group Ltd	(3,587)	(4,346)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	883,969,759	598,425,033
Weighted average number of ordinary shares used in calculating diluted earnings per share	883,969,759	598,425,033

Note 12. Related party transactions

Loan from and payable to related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	30 June 2018 $'000	31 December 2018 $'000
Loans from other key management personnel related entity		
Beginning of the period	-	1,002
Loans advanced	-	-
Interest charged	-	-
Loan converted to equity	-	(900)
Loan repayment	-	(102)
Exchange differences	-	-
End of period	-	-

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Other transactions with related parties
There were no other transactions with related parties for the period ended 30 June 2019.

YPB Group Ltd
Directors' declaration
For the half-year ended 30 June 2019

In the directors' opinion:

- the attached consolidated financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached consolidated financial statements and notes give a true and fair view of the consolidated entity's consolidated financial position as at 30 June 2019 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

For and on behalf of the directors

John Houston
Executive Chairman

Dated: 30th August 2019

YPB GROUP LIMITED
ACN 108 649 421
AND CONTROLLED ENTITIES
INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF YPB GROUP LIMITED

SYDNEY
Level 40
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We have reviewed the accompanying half year financial report of YPB Group Limited, which, which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss & other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half- year ended on that date, notes to the financial statements, including a summary of significant accounting policies, other explanatory information and the directors' declaration.

Director's Responsibilities for the Half- year Financial Report

The directors of the YPB Group Limited are responsible for the preparation of the half-year 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 half- year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half – year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether , on the basis of the procedures described, we become aware of any matter that makes us believe that the half year financial a report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of YPB Group Limited's financial position as at 30 June 2019 and its performance for the half year ended on that date: and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of YPB Group Limited, ASRE 2410 requires that we comply with ethical requirements to the audit of the annual financial report.

A review of a half- year financial report consist of making enquires, primarily of persons responsible for the financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting the review, we have complied with the independence requirements of the Corporations Act 2001.We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of YPB Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Review Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of YPB Group Limited is not in accordance with the Corporations Act including:

YPB GROUP LIMITED
ACN 108 649 421
AND CONTROLLED ENTITIES
INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF
YPB GROUP LIMITED

(a) giving a true and fair view of the YPB Group Limited's financial position as at 30 June 2019 and of its performance for the half- year ended on that date; and
(b) complying with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of matter

We draw attention to Note 2 "Critical Accounting Judgements and Key Sources of Estimation and Uncertainty" and Note 5 "Intangibles" in the financial report. The directors have assessed the carrying value of the group's purchased Motif Micro's patent license rights based on value in use methodology, which indicates that the value of the intangible assets amounting to $8,105,000 is recoverable. If management's judgements and estimates in relation to the future generation of cashflows from the commercialisation of the Motif Micro technology and the key assumptions used to assess the carrying value are not met including achieving forecast revenues and associated EBITDA targets, this may cause significant uncertainty as to whether the carrying value of the patent license rights will be recoverable and at the amount disclosed in the financial report.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report, which indicates that the group incurred a net loss of $3,587,000 during the half-year ended 30 June 2019 and as at that date the group's current liabilities exceeded its current assets by $3,672,000. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Hall Chadwick

HALL CHADWICK
Level 40, 2 Park Street
Sydney NSW 2000

GWebb

GRAHAM WEBB
Partner
Dated: 30 August 2019