ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 31st August 2017

APPENDIX 4D COMMENTARY

- FIRST HALF REVENUE WEAK, $4.5M COST OUT ACHIEVED, INFLECTION POINT REACHED WITH CEO CHANGE
- H1 2017 was poor with contract closures unexpectedly low resulting in CEO departure.
- H2 2017 revenues are confidently expected to demonstrate a clear inflexion point in the company's fortunes. Resumption of operational leadership in July 2017 by the Executive Chairman has already resulted in increased contract closures with increased revenues to follow.
- The cash loss in the half was similar to pcp however reported loss for the half year increased due to lower revenue and higher statutory costs.
- In H1 2017 overhead costs have been cut by 40%, hitting the target of $6.5m annual overhead by mid-2017. This is only modestly apparent in the H1 accounts but will be obvious in H2 2017.
- Greater contract closure remains the key to achieving our expectation of a 2018 pre-tax profit of at least $5m. This figure can be achieved with only a modest rate of conversion of pipeline into revenue.

Brand Protection and Customer Connection solutions company YPB Group Limited (ASX: YPB) announces its financial results for the half year ended 30 June 2017.

H1 2017 was a poor half. Opportunity was not lost but it was a period of gross underachievement as pipeline was not converted to revenue as required to hit our financial milestones. The encouragement in the half was that the recognition of the need to *fight fakes* and *connect customers,* and consequent interest in our solutions, is greater than ever. The disappointment is we are six to nine months behind where we should be.

The building of a circa $120m revenue opportunity pipeline over 2016, led by COO Greg O'Shea, created an asset of significant nascent value. Frustratingly, however, H1 2017 should have seen greater conversion of opportunity to revenue. While clients ultimately control timing, our focus, prioritisation and resource allocation were poor and this led to the departure of the CEO on July 3rd 2017.

Executive Chairman John Houston resuming operational leadership has refocused and reinvigorated senior management, more effectively aligned focus with probable reward and increased the efficiency of effort. It has reinforced the Board's confidence that the company's promise will be realised and that financial transformation is imminent as previously expressed to the market on the back of a substantial increase in revenues.

The benefit of greater focus and effectiveness have already become evident over the eight weeks since John Houston has resumed the helm. Revenue for 2016 was $3m and over July and August 2017, John and the team have added nearly $2m in new annual revenue. Numerous projects are prioritised for closure prior to end 2017 and, if realised, will see us well placed to achieve our goal of a pre-tax profit of at least $5m in 2018. Importantly, the emphasis is not on growing the new business pipeline but on pipeline conversion. The pipeline presently stands at $128m of potential annual revenues.

The cost-out programme begun in February 2017 has hit target. Annual overhead cost has been reduced from $11m as end December 2016 to $6.5m as at end July 2017. Some cost progress was apparent in H1 2017 with the gross cost base (not directly comparable with the overhead cost just quoted) in H1 2017 was $6.68m down from $7.26m in the pcp.

The bulk of the cost reductions will be apparent in H2 2017 with headcount reduced by 27% to 31 staff presently. The R&D expense will also fall as an acceleration of spend to complete the CONNECT 2.0 software occurred in H1 and spend in H2 will be naturally lower. Production costs (cost-of-goods-sold), on the other hand, are likely to increase in H2 due to greater activity in Retail Anti-Theft (RAT) and Vital Government Documents (passports and Mexican lottery register) but these cost increases are self-funding with sound gross margins and a low cost-to-serve.

The sharply lower cost base that has been achieved increases already significant profit leverage to revenue growth. As revenues grow, costs will lag resulting in geared profit growth once the breakeven threshold is passed.

YPB Executive Chairman Mr John Houston said: “We are extremely disappointed with the company’s financial performance in H1 2017 due to lack of contract delivery. But importantly there were no developments in the half that suggests that our assessment of our prospects should dim. Quite the contrary – our solutions have greater client relevance and interest than ever but execution of our plan is critical. The benefits of the senior leadership changes are already being seen and we expect contract successes prior to end 2017.

We are clearly not a start-up or venture stock. We have proven, practical, relevant technology. We have strong client interest as evidenced by the size of our pipeline. We have the people to propose and implement solutions to clients’ problems. As we do so increasingly effectively, we will convert opportunity into reliable recurring revenues by becoming important solutions partners to our clients. We remain firmly of the view that we are on the cusp of financial transformation but our credibility with shareholders is low and can only be restored by delivery. H2 2017 will provide first evidence of acceptable performance and show mid-2017 as an inflexion point in the company’s progress to being a successful, profitable, high growth enterprise.”

Financial results H1 2017

Cash consumed by the business of $4.62m in H1 2017 was up 5% on $4.42m in H1 2016. The reported statutory loss of $7.8m included non-cash adjustments of $1.8m, the most significant being a write-off of the funds due from Lanstead Capital LP due to the sharp fall in the share price.

Revenue of $0.83m in H1 2017 fell heavily to nearly half that of the pcp due to large RAT orders in the pcp. The RAT business is presently experiencing increased scope and scale and will show strong growth for the year. The unacceptably low aggregate revenue figure for the half was driven by weak pipeline conversion. This is already reversing in H2 2017 and a more acceptable revenue result is likely in H2 2017.

Cash receipts of $1.3m in H1 2017 fell less heavily than revenue and were down $0.40m or 23% on pcp. Cash receipts in H2 2017 should recover substantially but with a significant weighting to Q4.

Gross operating costs in the half were down $0.58m to $6.68m. As discussed above, H2 operating costs will be down substantially on H1 with the exception of production costs (cost-of-good-sold) which is likely to rise strongly but with a solid margin contribution.

During the half, the company secured a 3 year US$10m convertible notes with warrants funding programme with Bracknor Investment Group of Dubai. US$1.5m of this facility was drawn in May 2017. Following the drawdown, the balance sheet records a new convertible note liability of A$1.76m.

Business Developments

While progress in H1 2017 was well behind plan there were positive developments including:

- The first Vital Documents contract with the Mexican Armed Forces;
- The award of Board of Investment Status by the Government of Thailand which provides the company substantial tax and other cost advantages.
- Supply of forensic technical equipment to the Bank of Thailand (Thailand's Central Bank).
- Signing Le Mac as a channel partner for the PROTECT range of products. Le Mac is the market leader in Australia in shrink sleeve technology for product protection producing hundreds of millions of shrink sleeves per annum.
- Publication by the US Patent Office of a patent granted in China for "On the Go" wireless connectivity for YPB's scanners.
- Signing Guanzhou Panyu MCP Industries as a channel partner for the full YPB solution suite. Guanzhou Panyu is a division of CPMC Holdings the largest manufacturer of metal packaging products in China and one of the core business divisions of Chinese State Owned Enterprise and Fortune 500 company COFCO.
- Signing Kim Pai Impact of Thailand, a major tube producer for multi-national FMCG operators, as a channel partner. This relationship was developed by Impact International, the leading FMCG tube producer in Australia. Impact is proving an esteemed and valuable partner. Kim Pai's annual production volumes are in the billions of tubes.

Post June 2017:

- John Houston resumed full operational leadership;
- A four year A$5.6m print contract to supply winning ticket registers was awarded by the National Lottery Office in Mexico to the Affyrmx JV; and
- Lucas' Papaw Remedies began fighting fakes with YPB PROTECT after considerable success in Asia has seen its product counterfeited in Asian markets.

For further information, please contact;

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ABOUT YPB

YPB Group (ASX: YPB) is a pioneer in advanced brand protection solutions. Listed on the Australian Securities Exchange, YPB is expanding its global footprint with an established presence in Australia, China, Thailand, USA, Mexico and India.

YPB's patented Anti-Counterfeit technology combined with its Security Packaging and Anti-Theft solutions, Consulting Services and YPB's proprietary CONNECT platform enables clients to PROTECT their high value brands from the risks of counterfeit, product diversion and theft while providing the tools to CONNECT directly with their customers.

PROTECT

Smart Security Packaging and labeling for Brands

YPB offers a wide range of Smart Security Packaging and Labeling solutions that can be incorporated into almost any material and offer cost effective strategies to PROTECT the integrity and value of products and brands in high-risk markets.

Government Vital Documents

YPB offers solutions to Governments to PROTECT their Vital Documents which include ID cards, Visas, Passports, Vehicle Labels and many other applications.

Retail Anti-theft

YPB offers clients the latest technology in Retail Anti-Theft and Labeling solutions effective for mainstream retailers, boutiques and exporters to PROTECT against theft.

IP solutions & forensic services

YPB's IP solution specialists work with quality brands and Governments, to develop bespoke brand protection strategies and solutions that will deliver real protection and safety for brands, products and consumers.

Secure Supply Chain

YPB offers secure supply chain solutions to Governments, banks and companies wanting to ensure the integrity of their supply chain using a combination of YPB's authentication technology and secure track and trace solutions, delivering real protection for high value documents, brands, products and consumers.

DETECT

Scanner and Tracer protection solutions

YPB's patent protected state-of-the art Tracer technology is invisible, cannot be copied or destroyed. Brand owners who include YPB's tracers in their packaging can use YPB's scanners to verify their product's authenticity. If a counterfeit is detected YPB's forensic services can consult with a brand owner to develop strategic, tailored solutions to protect the brand against counterfeiting and product diversion.

CONNECT

Smartphone applications to Detect and Connect

YPB's sophisticated, user friendly and powerful smartphone applications allow brand owners and consumers to identify and report suspected counterfeit or diverted products. They also allow brands to connect and engage directly with their customers via QR codes, Near Field Communication, secure track and trace and product scanning. The YPB CONNECT platform delivers brand owners valuable and actionable intelligence about their products and customers to measure, tailor and individualise direct marketing campaigns through a 'big data' analytics capability.

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 2017
Previous period:	For the half-year ended 30 June 2016

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	48.4%	to	828
Loss from ordinary activities after income tax expense for the half-year attributable to the owners of YPB Group Ltd	down	24.2%	to	(7,726)
Loss for the half-year attributable to the owners of YPB Group Ltd	down	24.2%	to	(7,726)

Comments
The loss for the Consolidated Entity, after providing for income tax amounted to $7,726,000 (30 June 2016: $6,218,000). 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 $4,620,000 (30 June 2016: $4,424,000). Revenue for the period was $828,000 (30 June 2016: $1,604,000) which represents a 48.4% decrease on the prior period.

3. Net tangible assets

	30 June 2017 Cents	**30 June 2016 Cents**
Net tangible (liabilities) / assets per ordinary security	(2.28)	2.26

4. 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 2017 is attached.

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11. Signed

Signed ______________________________ Date: 31st August 2017

YPB Group Ltd

ACN 108 649 421

Interim Report – 30 June 2017

YPB Group Ltd
Directors' report
30 June 2017

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 2017.

1. Directors & 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 Ceased***
Executive Chairman		
John Houston	31 July 2014	
Executive Director		
Robert Whitton	31 August 2012	31 May 2017
Non-Executive Director		
Su (George) Su	31 July 2014	
Ronald Langley	28 April 2015	31 May 2017
Gerard Eakin	4 March 2016	

Mr Robert Whitton was the Company Secretary for the half-year under review and as of 9 June 2017, following the resignation of Jason York, he is also serving as interim CFO, whilst the recruitment process for a replacement CFO is underway.

2. Principal activities

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

3. Review of operations

The consolidated loss of the Consolidated Entity after providing for income tax amounted to $7,726,000 (30 June 2016: $6,218,000). 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 out flow from operations of $4,620,000 (30 June 2016: $4,424,000). Revenue for the period was $828,000 (30 June 2016: $1,604,000) which represents a 48% decline over the comparative period.

During the half-year the Group raised approximately $2,016,000 via a convertible notes facility, including warrants, held with Bracknor Investment Group. In the period ended 30 June 2016, $3,919,000 was raised from placements with sophisticated investors.

In January 2017, Affyrmx LLC received its first order for Vital Records from the Mexican Armed Forces, marking the entry into a potentially lucrative market and one not foreseen in the original business plan of the Affyrmx JV.

In January 2017 the Group received "Board of Investment (BOI) promotion certification" under the Government of Thailand's BOI Investment Promotion Scheme. Receipt of this certification allows YPB to access all of the benefits of the Scheme, including an eir-year exemption from corporate income tax and work and residency benefits for the expatriate staff.

On 3 May 2017 the Group secured a USD 10,000,000 (US Ten million dollar) flexible funding facility with Bracknor Investment Group. The facility is an interest free mandatory convertible bond with warrants funding programme over 3 years. The Group is Bracknor's first investment in Australia.

Effective 31 May 2017 Non-Executive Director Ronald Langley and Executive Director Robert Whitton announced their retirements.

On 1 June 2017 the Group signed a three-year supply contract for full PROTECT DETECT CONNECT product suite with Kim Pai Impact, a Joint Venture between Kim Pai Lamitube of Thailand and Impact International of Australia.

3. Review of operations (continued)

On 28 June 2017 the Group provided an update to financial forecasts previously made.

As a result of contract closures not being achieved the Group did not hit breakeven by end June and deemed it unlikely that a $5m pre-tax profit for 2017 was achievable. However, due to management changes, the size of the new business pipeline and progress with clients the Board deemed it appropriate to issue a new profit expectation of at least $5m pre-tax profit for 2018.

The Company's acquisition/merger with Motif Micro Inc., a company commercialising secure smartphone readable authentication technology, is due to be completed in the near term. Motif Micro holds world-wide perpetual licences to a number of patents developed at Massachusetts Institute of Technology ("MIT") which are considered the "Holy Grail" of anti-counterfeiting. Consideration comprising 10,244,025 shares and a first cash payment of US$1.5m is expected to be paid to the vendors with certain other payments in cash and shares due over the next 2 years subject to milestone achievement.

4. Events subsequent to balance date

On 4 July 2017, the Company announced the resignation of CEO Jens Michel effective immediately.

On 10 July 2017 the Company announced that Affyrmx LLC has been selected by Loteria Nacional Para La Assistencia Public, Mexico's National Lottery Office, to supply its register of winning tickets.

On 4 August 2017 the Company announced that renowned Australian brand Lucas' Papaw Remedies will protect its 10 million tubes produced annually with YPB's covert forensic tracer.

On 7 August 2017 the Company announced that BWS operators of over 1200 liquor stores nationally had selected YPB to survey all its sites undertaking a review of and to make recommendations concerning BWS' in-store product protection needs.

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

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: 31st August 2017

SYDNEY
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2 Park Street
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Australia

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YPB GROUP LIMITED
ACN 108 649 421
AND CONTROLLED ENTITIES

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

I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2017 there have been no contraventions of:

i. the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

ii. any applicable code of professional conduct in relation to the review.

Hall Chadwick

HALL CHADWICK
Level 40, 2 Park Street
SYDNEY NSW 2000

GRAHAM WEBB
Partner
Dated: 31 August 2017

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YPB Group Ltd
Consolidated statement of profit or loss and other comprehensive income (loss)
For the half-year ended 30 June 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
Revenue	4	828	1,604
Expenses			
Consulting fees		(675)	(1,867)
Depreciation and amortisation expense		(577)	(613)
Directors' fees		(98)	(294)
Employee benefits expense		(2,075)	(930)
Finance costs		(98)	(101)
Production costs		(502)	(951)
Rental expenses		(190)	(135)
Research and development costs		(938)	(635)
Marketing costs		(118)	(234)
Traveling expense		(307)	(720)
Share-based payments		(103)	(160)
Commissions expense		-	(89)
Regulatory expenses		(29)	(143)
Professional fees		(185)	(63)
Diminution in fair value of financial assets	5	(1,775)	(406)
Other expenses		(888)	(481)
Loss before income tax benefit		(7,730)	(6,218)
Income tax benefit		4	-
Loss after income tax expense for the half-year attributable to the owners of YBP Group Ltd		(7,726)	(6,218)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(82)	(142)
Other comprehensive income (loss) for the half-year, net of tax		(82)	(142)
Total comprehensive loss for the half-year attributable to the owners of YBP Group Ltd		(7,808)	(6,360)
		Cents	**Cents**
Basic and diluted earnings per share	11	(3.72)	(3.56)

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 2017

	Note	30 June 2017 $'000	31 December 2016 $'000
Assets			
Current assets			
Cash and cash equivalents		559	2,715
Trade and other receivables		559	729
Financial assets	5	-	2,250
Inventories		332	348
Total current assets		1,450	6,042
Non-current assets			
Plant and equipment		577	588
Intangibles	6	10,922	12,081
Total non-current assets		11,499	12,669
Total assets		12,949	18,711
Liabilities			
Current liabilities			
Trade and other payables		1,956	2,177
Deferred revenue		333	-
Financial liabilities – convertible notes	7	1,760	-
Total current liabilities		4,049	2,177
Non-current liabilities			
Borrowings		2,840	3,024
Other liabilities		-	1
Total non-current liabilities		2,840	3,025
Total liabilities		6,889	5,202
Net assets		6,060	13,509
Equity			
Issued capital	8	41,420	41,317
Reserves		4,225	4,051
Accumulated losses		(39,585)	(31,859)
Total equity		6,060	13,509

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 2017

Consolidated	**Issued Issued capital $'000**	**Foreign currency options reserve $'000**	**translation reserve $'000**	**Accumulated losses $'000**	**Share based payment reserve $'000**	**Total equity $'000**
Balance at 1 January 2016	33,606	393	2,565	(15,418)	98	21,244
Loss after income tax expense for the half-year	-	-		(6,218)	-	(6,218)
Other comprehensive income for the half-year, net of tax	-	-	(142)	-	-	(142)
Total comprehensive income for the half-year	-	-	(142)	(6,218)	-	(6,360)
Transactions with owners, in their capacity as owners:						
Shares issued, net of transaction costs	4,146		-	-	-	4,146
Shares issued in accordance with consulting arrangement	260	-	-	-	-	260
Shares issued in lieu of directors fees	203	-	-	-	-	203
Options exercised during the half-year	2	-	-	-	-	2
Options granted during the half year	-	259	-	-	-	259
Balance at 30 June 2016	38,217	652	2,423	(21,636)	98	19,754

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 2017	41,317	695	2,341	(31,859)	-	1,015	13,509
Loss after income tax expense for the half-year	-	-	-	(7,726)	-	-	(7,726)
Other comprehensive income for the half-year, net of tax	-	-	(82)	-	-	-	(82)
Total comprehensive income for the half-year	-	-	(82)	(7,726)	-	-	(7,808)
Transactions with owners, in their capacity as owners:							
Shares issued in accordance with convertible notes arrangement	103	-	-	-	-	-	103
Warrants options issued	-	-	-	-	256	-	256
Balance at 30 June 2017	41,420	695	2,259	(39,585)	256	1,015	6,060

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 2017

	Note	30 June 2017 $'000	30 June 2016 $'000
Cash flows used in operating activities			
Receipts from customers		1,318	1,712
Payments to suppliers and employees		(5,844)	(6,085)
Interest received		4	17
Finance costs		(98)	(101)
Foreign exchange gain/loss		-	33
Net cash used in operating activities		(4,620)	(4,424)
Cash flows used in investing activities			
Payment for plant and equipment		(27)	(82)
Net cash used in investing activities		(27)	(82)
Cash flows from financing activities			
Settlement of deferred share consideration	5	475	1,055
Proceeds from issue of shares (net of costs)		-	3,919
Proceeds from issue of options		-	2
Proceeds from issue of convertible notes	7	2,016	-
Loan provided to related party		-	(162)
Net repayment of loan from related party		-	(50)
Net cash from financing activities		2,491	4,764
Net (decrease) / increase in cash and cash equivalents		(2,156)	258
Cash and cash equivalents at the beginning of the financial half-year		2,715	2,877
Cash and cash equivalents at the end of the financial half-year		559	3,135

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 31st August 2017.

Note 2. Significant accounting policies

These general purpose consolidated financial statements for the half-year ended 30 June 2017 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 2016 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, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following new and amended Accounting Standards and Interpretations have not been early adopted:
- *AASB 9 Financial Instruments* – applicable for annual reporting periods commencing on or after 1 January 2018
- *AASB 15 Revenue from Contracts with Customers* – applicable for annual reporting periods commencing on or after 1 January 2018
- *AASB 16 Leases* - applicable for annual reporting periods commencing on or after 1 January 2019
- *AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative* - applicable for annual reporting periods commencing on or after 1 January 2017)

The above new and amended Accounting Standards and Interpretations are currently being evaluated by management in order to assess their possible impact on the company.

Note 2. Significant accounting policies (continued)

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 the various markets and to improve the conversion rate of its order pipeline.

The group incurred an operating loss after tax for the half-year of $7,726,000, had net cash outflows from operating activities of $4,620,000 and a deficiency of current assets over current liabilities of $2,855,000. As at 30 June 2017 the Group has cash and cash equivalents of $559,000.

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 prepared detailed cash flow forecasts, supported by both the existing sales contracts as well as reflecting revenue growth expected from its expansive sales pipeline.
- The Group has executed a cost reduction program that has reduced its operational cost base by approximately 40% from that as at end of December 2016.
- The Directors expect their current capital raising efforts to be completed by 31 October 2017, and expect to raise circa $4m to $10m.
- The Directors have also re-confirmed the sub-ordination of non-current loans amounting to $3.02m, not to be paid before 1 July 2018.
- Securing a $10m convertible note funding facility with Bracknor Investment Group, which was entered into in May 2017 and which as at 30 June 2017 was drawn on to the value of A$2,016,000.

Note 3. Operating segments

Identification of 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

Types of products and services

For the period ended 30 June 2017, 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 apart from a specialised counterfeit printing operation.

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.

The specialised printing operation provides its customers with a dedicated product range, including:

- Anti-counterfeiting solutions to brands and resellers in the areas of packaging and labelling.

Consolidated - 30 June 2017	Print Solutions $'000	Other segments $'000	Total $'000
Revenue			
Sales to external customers	223	600	823
Interest revenue	-	5	5
Total revenue	223	605	828
EBITDA	(252)	(5,028)	(5,280)
Depreciation and amortisation	-	(577)	(577)
Impairment of assets	-	(1,775)	(1,775)
Interest expense	-	(98)	(98)
Loss before income tax benefit	(252)	(7,478)	(7,730)
Income tax benefit			4
Loss after income tax benefit			(7,726)
Assets			
Segment assets	52	12,897	12,949
Total assets			12,949
Liabilities			
Segment liabilities	92	6,797	6,889
Total liabilities			6,889

Note 3. Operating segments

Consolidated – 30 June 2016	Print Solutions $'000	Other segments $'000	Total $'000
Revenue			
Sales to external customers	312	1,275	1,587
Interest revenue	-	17	17
Total revenue	312	1,292	1,604
EBITDA	(253)	(5,251)	(5,504)
Depreciation and amortisation	-	(613)	(613)
Interest expense	-	(101)	(101)
Loss before income tax benefit	(253)	(5,965)	(6,218)
Income tax benefit			-
Loss after income tax benefit			(6,218)
Assets			
Segment assets	393	23,713	24,106
Total assets			24,106
Liabilities			
Segment liabilities	869	3,483	4,352
Total liabilities			4,352

Geographical segment information as follows:

	Sales to external customers		Geographical assets	
	30 June 2017 $'000	30 June 2016 $'000	30 June 2017 $'000	30 June 2016 $'000
Australia	367	636	830	10,436
Peoples Republic of China and HK	25	173	11,155	11,173
Thailand	83	127	434	476
United States of America & Mexico	353	668	530	2,021
	828	1,604	12,949	24,106

Note 4. Revenue

	30 June 2017 $'000	30 June 2016 $'000
Revenue		
- Sale of goods	684	1,234
- Rendering of services	139	353
Other revenue		
Interest income	5	17
Total revenue	828	1,604

Note 5. Financial Assets

	30 June 2017 $'000	31 December 2016 $'000
Current		
Receivable from Lanstead	-	2,250
Non-current		
Receivable from Lanstead	-	-
	-	2,250

The fair value of the Lanstead receivable as at 30 June 2017 has been estimated as follows:

	Share price $	Number of shares outstanding	Fair value $
Value recognised on inception	0.26	19,231	5,000
Consideration received up to 31 December 2016		(10,150)	(1,690)
Gain/(loss) on diminution in fair value of the Lanstead receivable		-	(1,060)
Value of the Lanstead receivable at 31 December 2016		9,081	2,250
Consideration received up to 30 June 2017		(5,448)	(475)
Gain/(loss) on diminution in fair value of the Lanstead receivable		-	(1,775)
Value of the Lanstead receivable at 30 June 2017		3,633	-

The diminution in fair value, as recognised during the period, is a result of the actual share price of the company trading below the reference share price agreed on at the time of the underlying contract. Management does not anticipate further funding to be forthcoming from this facility and has subsequently recognised a diminution for the remaining receivable

Note 6. Intangibles

	30 June 2017 $'000	31 December 2016 $'000
Goodwill - at cost	-	3,089
Less: Accumulated impairment losses	-	(3,089)
	-	-
Intellectual property - at cost	13,804	13,804
Less: Accumulated amortisation	(2,882)	(1,723)
	10,922	12,081
Customer relationships - at cost	-	206
Less: Accumulated impairment losses	-	(178)
Less: Accumulated amortisation	-	(28)
	-	-
	10,922	12,081

Reconciliations

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

Consolidated	Goodwill $'000	Intellectual property $'000	Customer relationships $'000	Total $'000
Balance at 31 December 2017	-	12,081	-	12,081
Balance at 1 January 2017	-	12,081	-	12,081
Exchange differences	-	(621)	-	(621)
Amortisation expense	-	(538)	-	(538)
Balance at 30 June 2017	-	10,922	-	10,922

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.

In reviewing the recoverable amounts of the intangible assets, as at 30 June 2017, the directors have applied the ‘value in use’ methodology.

The ‘value in use’ modelling has been determined for each cash-generating unit, as defined, and as at 30 June 2017, the half-year impairment test was based on the approved annual operating plan (‘AOP’) and the accompanying five-year outlook.

The financial under-performance of the half year period ended 30 June 2017 was largely due to a lack of expected pipeline conversion and management’s focus on internal restructuring and cost reduction initiatives, resulting in key personnel changes and the departure of both the CEO and CFO. With the internal review process now completed, the board and management teams’ absolute focus is on realisation of the conversion targets set within the AOP.

As a result of the review, it was determined that the intangible asset, is not impaired.

The key assumptions and results arising from the value in use methodology, based on the approved AOP, relating to the unimpaired YPB business units, include:

Note 6. Intangibles (cont)

- A deemed conversion factor of 14,1% of the FY18 pipeline of $120mil;
- EBITDA of $5m to be achieved within FY18 without additional growth thereafter;
- Discounted cash flow modelling based on remaining life of intellectual property of 14 years with no terminal value;
- Mid-point WACC of 17.6% assuming a long-term debt/equity ratio of 18 / 82; and
- The group securing sufficient funding to continue as a going concern.

Sensitivity

Outlining management's consideration for impairment sensitivity, the table below illustrates the possible impact of annual earnings being below the anticipated forecast benchmark level over the respective years:

	Annual EBITDA			
	FY2018	**FY2019**	**FY2020**	**Midpoint Headroom Remaining / (Impaired)**
	$m	**$m**	**$m**	**$m**
Benchmark based on AOP	5.0	5.0	5.0	2.6
Scenario 1	1.8	3.0	5.0	0
Scenario 2	1.0	2.0	4.0	(3.6)
Scenario 3	0.5	1.0	3.0	(7.0)

Note 7. Financial liabilities

	30 June 2017 $'000	**31 December 2016 $'000**
Current		
Liabilities – Convertible Notes (Bracknor facility)	1,760	-
Non-current		
Liabilities – Convertible Notes (Bracknor facility)	-	-
	1,760	-

On 3 May 2017 the Group secured a USD 10,000,000 (US Ten million dollar) flexible funding facility with Bracknor Investment Group. The facility represents an interest free mandatory convertible bond arrangement with an additional warrants funding programme, stretching over 36 months.

The facility is classified as a compound financial instrument, however due to the fix-for-fix measurement criteria as per *AASB 132 Financial Instruments: Presentation*, all components are classified as debt as at 30 June 2017.

Convertible Notes
The total agreement accounts for 1,000 Notes with a face value of USD10,000 per Note.

The first tranche (the 'Initial Tranche') represented 150 Notes with a face value of $2,016,000, with all subsequent tranches to be issued in lots of 50 Notes.

Note 7. Financial liabilities (cont)

YPB is committed, but not obliged to take up additional tranches following the issue of the mandatory Initial Tranche.

The Notes are issued to Bracknor based on the lowest VWAP of the preceding 10 trading days, measured from the date of the subscription notice.

Conversion is at the option of the holder at any time. The conversion is based on a discounted share price, based on the lowest VWAP measured over a 10-day period before the date of the conversion notice and is converted to Australian dollar on the date of the resulting share issue.

The conversion calculation is also subject to a set floor share price of $0.065, with a cash compensation component becoming payable, if the calculated conversion price falls below the set floor price.

No conversion was processed during the period.

As part of the facility, YPB agreed to a commitment fee amounting to USD 250,000, which becomes payable proportionally with each tranche entered. The commitment fee component relating to the Initial Tranche has been settled by the issue of 1,210,074 shares equivalent to $103,000 on 15th May 2017.

Warrants

Attached to the convertible notes are warrant options, which are issued based on 50% of the tranche dollar value with the issue price calculated on a premium of 30% over the lowest VWAP measured within a 15-day period, before the subscription notice and a 'trunc factor' of 2 being applied.

Warrants upon issue become independent of the convertible notes and have an expiry period of 4 years from date of issue.

At the end of the 30 June 2017 period, YPB had only subscribed to the Initial Tranche (see above) resulting in a total of 8,463,750 warrants being issued to Bracknor on the 8th of May 2017, with an exercise price of $0.12. These warrants hold an embedded derivative value of $256,000.

On the day of issue, owing to volatility of parameters, including the spread of the exercise price over the current market price and the number of warrants on issue, no value was assigned to the warrants. The parameters are reviewed each quarter to recognise any subsequent fair value adjustment.

Note 8. Equity - issued capital

	30 June 2017 Shares	31 December 2016 Shares	30 June 2017 $'000	31 December 2016 $'000
Ordinary shares - fully paid	213,097,960	211,887,886	41,420	41,317

Movements in ordinary share capital

Details	Date	Shares	$'000
Opening balance	1 January 2017	211,887,886	41,317
Issued in accordance with the convertible notes arrangement	15 May 2017	1,210,074	103
Closing balance	30 June 2017	213,097,960	41,420

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.

Options on issue

	30 June 2017 Options	31 December 2016 Options	30 June 2017 $'000	31 December 2016 $'000
Options	112,231,884	112,231,884	695	695

Note 8. Equity – reserves

	Consolidated	
	30 June 2017 $'000	31 December 2016 $'000
Foreign currency reserve	2,259	2,341
Options reserve	695	695
Warrant options reserve	256	-
Share-based payments reserve	1,015	1,015
	4,225	4,051

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.

Warrant options reserve
The warrant options reserve has been used to recognise the warrants issued as part of the Bracknor facility – refer to note 7.

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 4 July 2017, the Company announced the resignation of CEO Jens Michel effective immediately.

On 10 July 2017 the Company announced that Affyrmx LLC has been selected by Loteria Nacional Para La Assistencia Public, Mexico's National Lottery Office, to supply its register of winning tickets.

On 4 August 2017 the Company announced that renowned Australian brand Lucas' Papaw Remedies will protect its 10 million tubes produced annually with YPB's covert forensic tracer.

On 7 August 2017 the Company announced that BWS operators of over 1200 liquor stores nationally had selected YPB to survey all its sites undertaking a review of and to make recommendations concerning BWS' in-store product protection needs.

Other than the above, 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 11. Earnings per share

	30 June 2017 $'000	30 June 2016 $'000
Loss after income tax attributable to the owners of YPB Group Ltd	(7,726)	(6,218)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	207,578,933	174,661,555
Weighted average number of ordinary shares used in calculating diluted earnings per share	207,578,933	174,661,555

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 2017 $	31 December 2016 $
Loans from other key management personnel related entity		
Beginning of the period	3,024	3,104
Interest charged	98	198
Loan repayment	(98)	(198)
Exchange differences	(184)	(80)
End of period	2,840	3,024

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

Note 13. Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting period.

YPB Group Ltd
Directors' declaration
For the half-year ended 30 June 2017

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 2017 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.

On behalf of the directors

John Houston
Executive Chairman

Dated: 31st August 2017

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YPB GROUP LIMITED
ACN 108 649 421
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF YPB GROUP LIMITED

Report on the Financial Report

We have reviewed the accompanying half-year financial report of YPB Group Limited, which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of 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 (including Australian Accounting Interpretations) 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 have become aware of any matter that makes us believe that the half-year financial 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 2017 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 the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and 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 we 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 our audit, we have complied with the independence requirements of the Corporations Act 2001.

HALL CHADWICK (NSW)

YPB GROUP LIMITED
ACN 108 649 421
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF YPB GROUP LIMITED

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 2001, including:

(i) giving a true and fair view of YPB Group Limited's financial position as at 30 June 2017 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of Matter

We draw attention to Note 6 in the financial report. The directors have assessed the carrying value of the group's intangible assets based on the value in use methodology, which indicates that the balance of intangible assets amounting to $10,922,000 is recoverable. In Note 6, the directors note why actual results to date have not been met and the basis for assessing the carrying value of its intangible assets. If the key assumptions used to assess the carrying value change, this may cause doubt as to whether the carrying value of the intangible assets will be recoverable and at the amounts disclosed in the financial statements. Our conclusion is not modified in respect of this matter.

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 $7,808,000 during the half-year ended 30 June 2017 and, as of that date, the group's current liabilities exceeded its current assets by $2,855,000. 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: 31 August 2017