

ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 31st August 2016

APPENDIX 4D COMMENTARY

• **YPB ON TRACK FOR STEP CHANGE IN PROFITABILITY**

- Half year loss in line with expectations
- Substantial progress in business development to become apparent later in H2 2016
- A strong acceleration in revenue to commence in Q4 2016
- Costs being judiciously controlled
- Expectations of breakeven Q1 2017 and FY17 EBT of \$5m reconfirmed

Brand Protection and Customer Engagement solutions company YPB Group Limited (ASX: YPB) is pleased to announce its financial results for the half year ended 30 June 2016.

The period was pivotal for the company as it launched commercialization of its end-to-end Anti-Counterfeit and Customer Engagement solutions suite. Significant development of the business was achieved in the half year although that progress was not yet visible in the financial results. Numerous valuable contracts announced during H1 will only first contribute revenue in H2 2016. Further, it is likely H2 will see both a greater number and a greater value of contract closures with revenue acceleration to follow. It is this conversion of an ever-increasing opportunity pipeline together with careful cost control that underpins confidence in cashflow breakeven being achieved by end Q1 2017 and \$5m EBT for FY2017 (December year end).

Financial results H1 2016

Cash consumed by the business of \$4.4m for H1 2016 was in line with expectations. The reported loss of \$6.2m included non-cash adjustments of \$1.8m, the most significant being share based payments (primarily for businesses acquired), non-cash depreciation and amortisation, and a mark-to-market adjustment of the funds due from Lanstead Capital LP.

Revenue growth of 107% in H1 2016 on pcp was a sound achievement but the absolute dollar increment modest. A more significant revenue increment is likely in H2 although it will be heavily Q4 weighted and subject to contract closure and commencement dates.

Expenses for the period also effectively doubled as the personnel necessary to execute commercialisation were hired. Importantly, there was negligible growth in the cost base between Q1 2016 and Q2 2016. Cost control and minimisation is a core value of the company and is evidenced by a majority of the executive team operating from virtual offices. Costs are unlikely to increase notably in H2 2016 with the possible exception of fees to JV partners or agents should a new client introduced by such parties begin generating substantial revenues. Obviously, in such a case there would be a large net benefit to profitability.

During the half company raised \$4.5 million in new equity. The raise was led by international investment bank Moelis and the company's first institutional support was achieved with six institutions joining the YPB register.

Business Developments

Personnel

YPB has assembled a talented, experienced team to drive the commercialisation of its solutions suite.

Key hires and role changes during the half included:

- John Houston passing the CEO baton to COO Jens Michel. John remains a driving force in strategy and key opportunity development as Executive Chairman.
- Jens Michel promoted to CEO 6 months post-joining YPB to drive day-to-day business growth and execution. Prior to YPB Jens had major success in business building in SE Asia for several European companies.
- Greg O'Shea as COO from a 23-year career in logistics and supply chain management, primarily in SE Asia.
- Jason York as CFO with significant experience in multi-national, multi-currency financial management.
- Rob Whitton freed from CFO duties to take an expanded role in business development in ANZ while retaining Company Secretary and Director responsibilities.
- Tianya Song a Western educated Chinese citizen with significant experience with EU companies in China, heading a renewed, refined and reinvigorated strategy in China.
- Mark Stafford after a multi-decade career in retail supply, spearheading the Australian retail and export focused business.
- Sheldon Brady with multi-faceted business development experience as Director ANZ & China, Corporate Accounts and Strategic Alliances.
- Philipp Hoffman with significant experience in SE Asia as President YPB Connect.
- Simon Szewach, co-founder of YPB Connect, moving into the key role of VP Emerging Markets and Strategic Partnerships.
- Isaac Balbin remaining the driving force behind the development and expansion of the YPB Connect platform.

Multiplier Partnerships

An important element of YPB's strategy is partnering where possible and logical. Partnering greatly multiplies the company's effective sales force and lifts the chance of effective market penetration by facilitating otherwise impossible access to key decision makers. Simultaneously, it minimises risk and capital commitment by keeping the cost base low. Key partnerships established in the period included:

- **Affyrmx JV – Government Vital Documents in Mexico and Latin America**
- **Sachin Tendulkar in India**
- **Agent in Pakistan**
- **Agent in Sri Lanka**

New business pipeline

The most important aspect of business development since the commercialisation phase began in earnest early in 2016 is clear confirmation that there is a large, hungry market for YPB's solutions. Brand Owners, particularly those exporting to destinations at high risk of counterfeit, increasingly recognise the need for Brand Protection strategies and the need to secure porous supply chains against counterfeit, substitution and theft. Consequently, the level of engagement with YPB is very high and the company is not aware of any potential client considering alternative solutions.

The new business pipeline has grown greatly over 2016. At the start of 2016 the new business pipeline was in the order of \$20m of possible revenue per annum. It presently stands at over \$128m of possible revenue per annum. This figure relates to projects at various stages of development from early to advanced. It should not be taken to mean that revenues approaching that figure are anticipated by the company.

Nevertheless, there is sufficient revenue with sufficiently high probability of conclusion in the pipeline to give the Board confidence to reiterate its stated milestones for 2017 of end Q1 breakeven and \$5m full year EBT.

Key achievements over 2016 thus far and likely further developments include:

- **MOU signed with global packaging leader Orora** – YPB's suite of Brand Protection and Customer Engagement solutions will be offered to Orora's customers under the agreement. It is anticipated a formal supply agreement with Orora will be concluded in the relatively near future. Further, YPB and Orora have progressed a targeted client rollout strategy.
- **Affymx JV Mexico** – Vital Records contracts won with four states in Mexico in the short period since the JV commenced in February 2016. The JV is progressing a number of other significant opportunities and expects at least one important Government Vital Document win prior to end 2016. The JV also recently announced its first non-Government contract in Mexico to protect food coupons for a charitable organization.
- **Tedulkar JV India**– Ten year contract with an entity associated with Sachin Tendulkar to spearhead YPB's move into the region. The JV is actively engaged in a number of Protect and Connect opportunities. Good progress is being made and closure of the first opportunities are possible pre end 2016.
- **China** – New management in China is achieving early success. YPB's technology was chosen to be applied in Government security passes used by officers of the Peoples Procuratorate of Beijing Municipality. YPB will also Protect tickets for a new private museum in Beijing. It is likely the real benefits of the reinvigorated strategy in China will not flow until 2017 when further progress is made.
- **Australia** – the pipeline is growing strongly with a focus on retail plus food, wine and nutraceutical exporters. The first pharma customer, Universal Pharmaceuticals, was signed in early July. Later in July, an MOU for a key supplier to the FMCG sector, Impact International, was signed with a MOU to offer the full product suite to its client base. Several other significant opportunities are well advanced and expected to close pre end 2016.

- **First contract signed in New Zealand** – YPB to supply its suite of technologies to clients of Comtech Solutions, with a focus on exporters in the food and beverage sector.
- **Retail Anti-Theft** – The extension of the Brand Protection range (PROTECT) into retail anti-theft commenced in early August with Dan Murphy's the first customer. This product extension is likely to prove very profitable in its own right and provide the platform for further penetration of the retail market with other elements of YPB's solution suite, notably CONNECT direct customer engagement.
- **Thailand and ASEAN** – a number of opportunities are progressing with several closures possible pre end 2016.
- **Varisec ePassport technology** – YPB's VariSec technology was chosen by a large Southeast Asian nation for its ePassports, in addition to a reorder by an existing customer covering a further 12 million ePassports. YPB is the only supplier of security foil to the passport market and it is likely further countries will adopt the technology of the next couple of years

YPB Executive Chairman Mr. John Houston said: "The period was the most important in the development of YPB as a genuine global franchise for Brand Protection and Customer Engagement, with a very strong Management team assembled, numerous clients signed and a burgeoning pipeline established to underpin our aggressive growth plans for the next 18 months. We've placed a stake in the ground regarding our expectations for 2017 and look forward to delivering on this and creating value for shareholders as a result."

For further information, please contact;

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PROTECT | DETECT | CONNECT

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 2016
Previous period:	For the half-year ended 30 June 2015

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	106.7% to	1,604
Loss from ordinary activities after income tax expense for the half-year attributable to the owners of YPB Group Ltd	up	162.8% to	(6,218)
Loss for the half-year attributable to the owners of YPB Group Ltd	up	162.8% to	(6,218)

Comments

The loss for the consolidated entity after providing for income tax amounted to \$6,218,000 (30 June 2015: \$2,366,000). The operating loss includes a number of non-cash & significant items (amortisation/fair value adjustments/share based payments) which leaves an underlying cash out flow from operations of \$4,426,000 (30 June 2015: \$2,554,000). Revenue for the period was \$1,604,000 (30 June 2015: \$776,000) which represents a 107% increase on the prior year.

3. Net tangible assets

	30 June 2016 Cents	30 June 2015 Cents
Net tangible assets per ordinary security	10.29	11.20

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

Not applicable.

8. Foreign entities

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

Not applicable.

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.

10. Attachments

Details of attachments (if any):

The Interim Report of YPB Group Ltd for the half-year ended 30 June 2016 is attached.

11. Signed

Signed 

Date: 31st August 2016

YPB Group Ltd

ACN 108 649 421

Interim Report – 30 June 2016

YPB Group Ltd
Directors' report
30 June 2016

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 2016.

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.

	<i>Date Appointed</i>	<i>Date Ceased</i>
<i>Executive Chairman</i> John Houston	31 July 2014	
<i>Executive Director</i> Robert Whitton (CFO)	31 August 2012	
<i>Non-Executive Director</i> Geoffrey Raby	31 July 2014	13 May 2016
Su (George) Su	31 July 2014	
Ronald Langley	28 April 2015	
Gerard Eakin	4 March 2016	

Mr Robert Whitton was the Company Secretary for the half-year under review.

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 loss for the consolidated entity after providing for income tax amounted to \$6,218,000 (30 June 2015: \$2,366,000). The operating loss includes a number of significant non-cash items, including amortisation, fair value adjustments and share based payments, which leaves an underlying cash out flow from operations of \$4,424,000 (30 June 2015: \$2,554,000). Revenue for the period was \$1,604,000 (30 June 2015: \$776,000) which represents a 107% increase on the prior period.

During the half-year the Group raised approximately \$3,919,000 from placements to sophisticated investors.

In February 2016 the company entered into a partnership agreement with Affrymx LLC which focuses on securing contracts for the provision of Government Vital Documents to the Mexican Government, plus commercial contracts in Mexico and Latin America. This relationship has secured four contracts for the supply of Vital Record documents during the half year.

The adoption of the company's VariSec e-passport technology continues to increase with the technology now supplied to an estimated 18 million of the 125 million e-passports issued annually.

During the half year the Group continued R&D activities to develop its products and technologies while also investing in the necessary human resources and relationships to allow the implementation of its business model throughout the geographies now covered including China, South East Asia, Australia, USA, Mexico and India.

4. Events subsequent to balance date

On 1 July 2016, the Company announced it had entered into a supply contract with NSW based pharmaceutical manufacturer and exporter Universal Pharmaceuticals.

On 21 July 2016 the Company announced that the balance of the pre-listing restricted securities, 67,300,668 Fully Paid Ordinary Shares and 750,000 Options would be released from escrow on 6 August 2016.

On 29 July 2016 the Company announced the signing of a supply agreement with Sydney based Impact International a leading tube manufacturer to the cosmetic, FMCG, pharmaceutical and health product industries.

On 1 August 2016 the Company announced that it was extending its PROTECT solutions business with the creation of a Retail Anti-theft business.

On 5 August 2016 the Company announced its appointment to PROTECT Dan Murphy's high value liquor products across Australia with its proprietary "Lexcap"

On 16 August 2016 the Company announced the extension of its Memorandum of Co-operation to supply its Proprietary VariSec technology to e-Passports globally.

On 17 August 2016 the Company announced the signing of a supply contract with a leading art museum in Beijing in relation to providing anti-counterfeit and authentication products and services to the museum's ticketing process.

On 24 August 2016 the Company announced its first commercial contract in Mexico, providing PROTECT business solutions to redeemable food coupons issued by the government.

5. Rounding of amounts

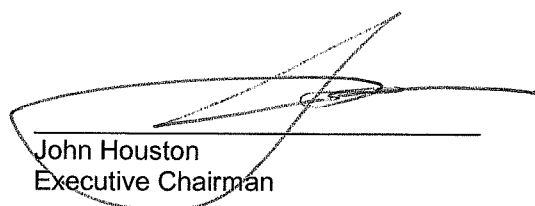
The Company is an entity to which ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 applies and, accordingly, amounts in the consolidated financial statements and directors' report have been rounded to the nearest thousand dollars.

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 2016

**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 AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the half year ended 30 June 2016 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

GRAHAM WEBB
Partner
Dated: 31 August 2016

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YPB Group Ltd
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30 June 2016

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YPB Group Ltd
Consolidated statements of loss and other comprehensive income (loss)
For the half-year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Revenue	4	1,604	776
Expenses			
Consulting fees		(1,867)	(405)
Depreciation and amortisation expense		(613)	(427)
Directors' fees		(294)	(101)
Employee benefits expense		(930)	(441)
Finance costs		(101)	(98)
Production costs		(951)	-
Rental expenses		(135)	(99)
Research and development costs		(635)	(738)
Marketing costs		(234)	(93)
Traveling expense		(720)	(201)
Share-based payments		(160)	(22)
Commissions expense		(89)	(77)
Regulatory expenses		(143)	(88)
Professional fees		(63)	(90)
Diminution in fair value of financial assets	5	(406)	-
Other expenses		(481)	(262)
Loss before income tax expense		(6,218)	(2,366)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of YBP Group Ltd		(6,218)	(2,366)
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(142)	520
Other comprehensive income (loss) for the half-year, net of tax		(142)	520
Total comprehensive loss for the half-year attributable to the owners of YBP Group Ltd		(6,360)	(1,846)
		Cents	Cents
Basic and diluted earnings per share	10	(3.56)	(1.97)

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

YPB Group Ltd
Consolidated statements of financial position
As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
Assets			
Current assets			
Cash and cash equivalents		3,135	2,877
Trade and other receivables		1,289	1,221
Financial assets	5	2,595	3,347
Inventories		386	179
Total current assets		<u>7,405</u>	<u>7,624</u>
Non-current assets			
Plant and equipment		343	313
Intangibles	6	15,414	16,176
Financial assets	5	944	1,653
Total non-current assets		<u>16,701</u>	<u>18,142</u>
Total assets		<u>24,106</u>	<u>25,766</u>
Liabilities			
Current liabilities			
Trade and other payables		1,290	1,418
Deferred revenue		48	-
Total current liabilities		<u>1,338</u>	<u>1,418</u>
Non-current liabilities			
Borrowings		3,014	3,104
Total non-current liabilities		<u>3,014</u>	<u>3,104</u>
Total liabilities		<u>4,352</u>	<u>4,522</u>
Net assets		<u>19,754</u>	<u>21,244</u>
Equity			
Issued capital	7	38,217	33,606
Reserves		3,173	3,056
Accumulated losses		(21,636)	(15,418)
Total equity		<u>19,754</u>	<u>21,244</u>

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

YPB Group Ltd
Consolidated statements of changes in equity
For the half-year ended 30 June 2016

Consolidated	Issued capital \$'000	Issued options reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Share-based payments \$'000	Total equity \$'000
Balance at 1 January 2015	17,449	-	1,835	(8,656)	98	10,726
Loss after income tax expense for the half-year	-	-	-	(2,366)	-	(2,366)
Other comprehensive income for the half-year, net of tax	-	-	520	-	-	520
Total comprehensive income for the half-year	-	-	520	(2,366)	-	(1,846)
<i>Transactions with owners, in their capacity as owners:</i>						
Shares issued, net of transaction costs	4,692	-	-	-	-	4,692
Options exercised during the half-year	11	-	-	-	-	11
Options granted during the half-year	-	393	-	-	-	393
Balance at 30 June 2015	22,152	393	2,355	(11,022)	98	13,976
Consolidated	Issued capital \$'000	Issued options reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Share-based payments \$'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)
<i>Transactions with owners, in their capacity as owners:</i>						
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

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

YPB Group Ltd
Consolidated statements of cash flows
For the half-year ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Cash flows used in operating activities			
Receipts from customers		1,712	161
Payments to suppliers and employees		(6,085)	(2,736)
Interest received		17	21
Finance costs		(101)	(3)
Foreign exchange gain/loss		33	-
Net cash used in operating activities		<u>(4,424)</u>	<u>(2,557)</u>
Cash flows used in investing activities			
Payment for plant and equipment		(82)	(27)
Payment for acquisition of subsidiaries (net of cash acquired)		-	(126)
Net cash used in investing activities		<u>(82)</u>	<u>(153)</u>
Cash flows from financing activities			
Settlement of deferred share consideration	5	1,055	-
Proceeds from issue of shares (net of costs)	7	3,919	4,291
Proceeds from issue of options		2	393
Loan provided to related party		(162)	-
Net repayment of loan from related party		(50)	(106)
Net cash from financing activities		<u>4,764</u>	<u>4,578</u>
Net increase in cash and cash equivalents		258	1,868
Cash and cash equivalents at the beginning of the financial half-year		2,877	2,405
Cash on acquisition		-	21
Cash and cash equivalents at the end of the financial half-year		<u><u>3,135</u></u>	<u><u>4,294</u></u>

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

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2016

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, YPB 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 2016.

Note 2. Significant accounting policies

These general purpose consolidated financial statements for the half-year ended 30 June 2016 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 2015 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.

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2016

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. The group incurred an operating loss after tax for the half-year was \$6,218,000 and had a net cash outflows from operating activities of \$4,424,000. At 30 June 2016 the Group has cash and cash equivalents of \$3,135,000.

Notwithstanding this, the Group believes there are reasonable grounds that they 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 board are reviewing its capital options with a view to raising further funds before the end of the year

Note 3. Operating segments

Identification of operating segments

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.

For the half-year ended 30 June 2016, management considers the company to offer its client base a complete end-to-end service and product offering, hence considering its operations to represent one business segment. The results of the single operating segment are disclosed in the consolidated statements of financial position and the consolidated statements of loss and comprehensive income (loss).

Geographical segment information as follows:

	Sales to external customers		Geographical assets	
	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Australia	636	19	10,436	5,409
Peoples Republic of China and HK	173	260	11,173	11,308
Thailand	127	54	476	211
United States of America	668	443	2,021	558
	<u>1,604</u>	<u>776</u>	<u>24,106</u>	<u>17,486</u>

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2016

Note 4. Revenue

	30 June 2016 \$'000	30 June 2015 \$'000
<i>Sales revenue</i>		
- Sale of goods	1,234	312
- Rendering of services	353	443
<i>Other revenue</i>		
Interest	17	21
Revenue	<u>1,604</u>	<u>776</u>

Note 5. Financial Assets

	30 June 2016 \$'000	30 June 2015 \$'000
Current		
Receivable from Lanstead	2,595	-
Non-current		
Receivable from Lanstead	944	-
	<u>3,539</u>	<u>-</u>

The fair value of the Lanstead receivable as at 30 June 2016 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 30 June 2016		(4,701)	(1,055)
Gain/(loss) on diminution in fair value of the Lanstead receivable			(406)
Value of the Lanstead receivable at 30 June 2016		<u>14,530</u>	<u>3,539</u>

As announced to the market on 22 December 2015, the Company issued 20,192,307 shares to Lanstead Capital L.P. ('Lanstead'). Lanstead, subscribed for 19,230,769 shares (the 'Subscription Shares'), for an aggregate nominal consideration of \$5,000,000. Lanstead also received 961,538 shares in lieu of payment of a \$250,000 fee for entering an Equity Sharing Agreement.

The Company entered into an Equity Sharing Agreement with Lanstead to allow the Company to retain much of the economic interest in the Lanstead Subscription Shares. The Equity Sharing Agreement enables the Company to secure much of the potential upside arising from the anticipated near term news flow. The aggregate consideration of \$5,000,000 is to be repaid by way of an initial \$750,000 (received 7 January 2016) followed by 18 monthly instalments.

The diminution in fair value is a result of the actual share price of the company trading below the anticipated reference share price agreed on at the time of the underlying contract.

Note 6. Intangibles

	30 June 2016 \$'000	31 December 2015 \$'000
Goodwill - at cost	3,618	3,618
Less: Accumulated impairment losses	(2,206)	(2,206)
	<u>1,412</u>	<u>1,412</u>
Intellectual property - at cost	17,257	17,137
Less: Accumulated amortisation	(3,529)	(2,788)
	<u>13,608</u>	<u>14,349</u>
Customer relationships - at cost	429	429
Less: Accumulated amortisation	(35)	(14)
	<u>394</u>	<u>415</u>
	<u><u>15,414</u></u>	<u><u>16,176</u></u>

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 1 July 2015	120	11,872	-	11,992
Additions through business combinations	1,296	2,345	436	4,077
Exchange differences	(4)	608	(21)	583
Amortisation expense	-	(476)	-	(476)
Balance at 31 December 2015	<u>1,412</u>	<u>14,349</u>	<u>415</u>	<u>16,176</u>
Balance at 1 January 2016	1,412	14,349	415	16,176
Exchange differences	-	(209)	-	(209)
Amortisation expense	-	(532)	(21)	(567)
Balance at 30 June 2016	<u>1,412</u>	<u>13,608</u>	<u>394</u>	<u>15,414</u>

The measurement period relating to the acquisition of Intellectual Property Protection Co Ltd and Intellectual Product Protection Inc. (IPP) ended during the half-year period. As part of the purchase price allocation process the Company has engaged an independent expert to provide certainty on the identifiable asset base acquired.

As at 30 June 2016, the purchase price allocation, specific for IPP has been finalised and resulted in a reduction of the intellectual property allocation by \$120,000 with a corresponding increase to goodwill arising from that acquisition. The amortisation charge reversal required for the 14 month period to 30 June 2016 amounts to \$14,000 and has been applied retrospectively.

The IPP purchase price allocation adjustment does not impact the recoverability assessment of the overall intangible asset position as at 30 June 2016.

At the time the financial statements were authorised for issue, the accounting for the acquisitions of CFC and nTouch have not yet been completed. In particular, the fair values of the assets and liabilities relating to those acquisitions have only been determined provisionally, as the independent valuations are still being finalised.

Note 6. Intangibles (cont)

- * 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.
- ** The recoverable amount of intellectual property, goodwill and customer relationships amounting to \$15,400,000 was determined using the relief from royalty methodology.

The royalty relief methodology is based on the principle that the owner of intangible assets would be prepared to pay a royalty for the right to use the intangible assets if someone else owned it. The relief from royalty methodology is based on the present value of a notional royalty stream that the company would be relieved from paying as a result of owing the intellectual property over a 15 year period. The notional royalty streams are discounted using the weighted average cost of capital of the company.

In determining the revenue forecasts underpinning the royalty relief model, the directors have applied and considered the newly acquired capabilities of the YPB Group to provide its end customers a true end-to-end service offering that includes B2C functionality and user interaction in addition to product sales. The additional services have only become available late in the 2015 calendar year and the full benefit of these new platforms and services will only become reliably measurable upon full integration into the business.

In context of the new product capabilities of YPB, the directors have forecast annual revenue growth to increase exponentially over the next 5 years and have considered an achievable medium-term revenue target to be approximately \$38.8 million at the end of the growth phase in 2020. The directors expect the full benefits of the Company's integrated sales initiatives to materialise during this period before entering a long-term growth pattern at an annual rate of at least 5%.

The above the following key assumptions were used in the royalty relief calculation:

- Growth rate: between 10% and 90% until 2022 and 5% thereafter
- Royalty rate: 8%
- Discount rate: 16.1%

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2016

Note 7. Issued capital

	30 June 2016 Shares	31 December 2015 Shares	30 June 2016 \$'000	31 December 2015 \$'000
Ordinary shares - fully paid	<u>191,919,886</u>	<u>170,400,287</u>	<u>38,217</u>	<u>33,606</u>

Movements in ordinary share capital

Details	Date	Shares	\$'000
Opening balance	1 January 2016	170,400,287	33,606
Exercise of share options	17 February 2016	10,000	2
Issued in accordance with consulting arrangement	17 February 2016	1,000,000	260
Issued in lieu of directors' fees	13 May 2016	648,486	203
Share placement	30 May 2016	18,916,667	4,540
Issued under share-based payments	6 June 2016	944,446	227
Less: Transaction costs on shares issued, net of tax		-	(621)
Closing balance	30 June 2016	<u>191,919,886</u>	<u>38,217</u>

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	31 December 2015	40,053,884	393
Exercise of share options	17 February 2016	(10,000)	-
Options issued in lieu of retainer	6 June 2016	3,000,000	99
Options issued as management incentive	6 June 2016	4,000,000	160
Closing balance	30 June 2016	<u>47,043,884</u>	<u>652</u>

Options

Options issued during the year were valued based on the following assumptions:

Volatility	54.55%
Risk-free rate	4.46%
Weighted average term (yrs)	2.88

All options were issued on 6 June 2016. 4,000,000 options have an exercise price of \$.50 per share and the remaining 3,000,000 options have an exercise price of \$.75. 6,000,000 of the options expire on 28 February 2019 and 1,000,000 of the options expire on 6 March 2020. The weighted average remaining life of the options at 30 June 2016 is 2.81 years.

Note 8. Dividends

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

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2016 and 31 December 2015

Note 9. Events after the reporting period

On 1 July 2016, the Company announced it had entered into a supply contract with NSW based pharmaceutical manufacturer and exporter Universal Pharmaceuticals.

On 21 July 2016 the Company announced that the balance of the pre-listing restricted securities, 67,300,668 Fully Paid Ordinary Shares and 750,000 Options would be released from escrow on 6 August 2016.

On 29 July 2016 the Company announced the signing of a supply agreement with Sydney based Impact International a leading tube manufacturer to the cosmetic, FMCG, pharmaceutical and health product industries.

On 1 August 2016 the Company announced that it was extending its PROTECT solutions business with the creation of a Retail Anti-theft business.

On 5 August 2016 the Company announced its appointment to PROTECT Dan Murphy's high value liquor products across Australia with its proprietary "Lexcap"

On 16 August 2016 the Company announced the extension of its Memorandum of Co-operation to supply its Proprietary VariSec technology to e-Passports globally.

On 17 August 2016 the Company announced the signing of a supply contract with a leading art museum in Beijing in relation to providing anti-counterfeit and authentication products and services to the museum's ticketing process.

On 24 August 2016 the Company announced its first commercial contract in Mexico, providing PROTECT business solutions to redeemable food coupons issued by the government.

Other than the above, no matter or circumstance has arisen since 30 June 2016 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 10. Earnings per share

	30 June 2016 \$'000	30 June 2015 \$'000
Loss after income tax attributable to the owners of YPB Group Ltd	<u>(6,218)</u>	<u>(2,366)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>174,661,555</u>	<u>119,970,070</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>174,661,555</u>	<u>119,970,070</u>

Note 11. Related party transactions

During the half-year ended 30 June 2016, \$13,000 in consulting fees were expensed to William Buck. The Company is related through common directors. No amounts were outstanding at 30 June 2016 in relation to these transactions. During the half-year ended 30 June 2015, \$30,000 was payable.

As at 30 June 2016, the Company has also prepaid \$162,000 to Affyrmx, a related party, for certain printing machinery to be delivered over the coming months.

YPB Group Ltd
Directors' declaration
For the half-year ended 30 June 2016

Note 11. Related party transactions (cont)

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 2016 \$	31 December 2015 \$
Loans from other key management personnel related entity		
Beginning of the period	3,104	2,748
Interest charged	101	196
Loan acquired through business combinations	-	42
Loan repayment	(98)	(196)
Exchange differences	(112)	314
	<hr/>	<hr/>
End of period	<u>2,995</u>	<u>3,104</u>

Terms and conditions

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

Note 12. Contingent liabilities

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

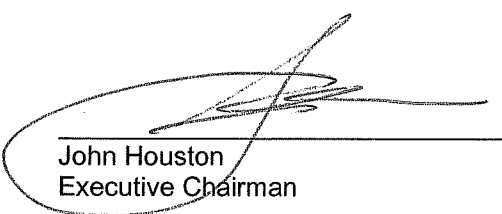
YPB Group Ltd
Directors' declaration
For the half-year ended 30 June 2016

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 2016 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 2016

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

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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 2016, 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 2016 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.

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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**

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 2016 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

Without modifying our conclusion, we draw attention to Note 6 to the financial statements. The directors have assessed the carrying value of the group's intangible assets based on the relief from royalty methodology, which indicates that the balance of intangible assets amounting to \$15.4m is recoverable. 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.

Hall Chadwick

HALL CHADWICK
Level 40, 2 Park Street
SYDNEY NSW 2000

G Webb

GRAHAM WEBB

Partner

Dated: 31 August 2016