

## ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 28th February 2017

### 2016 4E Commentary

- 2016 loss increased due to investment in accelerated commercial roll out of technologies
- Costs to fall by 40% by mid-2017
- Revenues to exceed costs (breakeven) by end June 2017
- Pre-tax profit of \$5m for 2017 confirmed

#### Key 2016 developments

2016 was a year of increased investment in business building for YPB. Operating expenses increased as the multi-national, commercial roll-out of our technologies accelerated over the year. As planned, costs grew ahead of revenues and the operating loss increased. As previously foreshadowed, this investment in operations is expected to bear fruit in 2017 as revenue growth is anticipated to accelerate through the year and revenue is expected to exceed costs for the first time by end June 2017. A \$5m pre-tax profit remains our expectation for 2017.

There were three primary accomplishments in 2016:

1. Assembly of a top-rate management team. YPB was successful in attracting management of a calibre well beyond that of most young companies with key executive and sales rolls filled.
2. Confirmation of product interest. The expanded sales capability saw much increased client interaction over multiple geographies which pleasingly confirmed that brand owners recognise the urgent need to protect against fakes and eagerly want to directly engage with their customers. Interest in our technologies is high and there are few, if any, competitive offers presently being considered by our potential clients.
3. Development of substantial new business pipeline. The combination of expanded sales effort and strong customer interest resulted in a substantial pipeline of potential new business with a total value of \$110m (of possible annual revenue) as at end 2016. The pipeline grew more than five-fold over 2016. High quality distribution partners and prominent clients were engaged and signed. A portion of this pipeline converting to revenue will be the key driver of financial success in 2017.

In May 2016, YPB issued two key financial milestones: achieving run-rate break-even by end March 2017 and a pre-tax profit of \$5m for 2017. On 2 February 2017, a 3 month slippage in the break-even expectation from end March to end June 2017 was announced due to slower contract closures but the profit expectation of \$5m pre-tax for 2017 was confirmed.

On the same date, a 40% reduction in non-COGS costs by May 2017 was announced due to a refined geographic focus and the opportunity to move from direct sales to partnering. The key new partnership, which was expected by end February 2017 but which now should conclude in coming weeks, will allow a significant reduction in costs and likely see more rapid market penetration due to the credibility and distribution network of the partner.

The cost reductions being presently implemented will not benefit all of 2017 and total non-COGS costs for 2017 are likely to be 30% below 2016 costs. On an annual run-rate basis costs will reduce by 40% by mid-2017.

A key advantage of our *multiplier partnership* distribution model is that revenue can grow rapidly while risk is minimised with fixed costs and capital commitments being kept low. Profit leverage to revenue should be high as cost growth is likely to lag revenue growth.

While many young technology companies are prepared to lose money indefinitely in “land grab” strategies, the Board and Management of YPB are intent on building a sustainable, highly profitable business while still growing as rapidly as possible. We aim to minimise risk while maximising shareholder wealth.

#### **Brief financial review**

As noted above, costs increased in 2016 due primarily to increased staff numbers and several senior management hires. Expenses related to a greater sales effort, such as travel, also increased. Production costs grew as more product was shipped, particularly in the new retail anti-theft product lines.

The reported pre-tax operating loss, excluding impairments, increased from \$6.762m to \$12.113m.

Revenue grew 74% to \$2.982m. Costs, excluding impairments and share-based payments, rose 78% from \$8.194m to \$14.551m. There were a number of costs associated with setting up international partnerships in 2016 that will not recur in 2017, which meant the full year 2016 cost base is exaggerated relative to the true operating cost base.

The true operating cost base as at end 2016 was approximately \$11.1m. For the full year 2017, operating costs are expected to be \$7.7m. By mid-2017, costs are expected to fall by 40% to \$6.5m on an annual run-rate basis. COGS will be additional to this figure but will incur a sound positive margin and so although COGS will add to cost on a gross basis they will directly add profit on a net basis.

The cash operating picture was better than the profit report. Cash operating loss was up 65% from \$5.767m to \$9.493m. Cash receipts from customers of \$3.262m was up 294% from \$0.828m. Cash receipts exceeded reported revenue by \$0.280m. Cash expenses increased from \$6.595m to \$12.755m.

Two non-cash impairment charges were taken through the profit and loss account. As a conservative measure, all goodwill of \$3.089m was written off. A further impairment charge of \$0.178m on intangible customer relationships was taken as a result of moving from a direct to a partnership distribution model in one specific geography.

A mark-to-market charge on the cash receivable from Lanstead of \$1.060m arose due to the YPB share price being below the *reference price* specified in the Lanstead Equity Sharing Agreement.

The company was successful in raising capital in 2016. In May \$4.5m was raised at \$0.24 per share and in October 2016 \$4.0m was raised at \$0.25 per share.

A more expansive review of operations and results will be included in the forthcoming annual report.

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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.



**PROTECT | DETECT | CONNECT**

#### **Government Vital Documents**

YPB offers solutions to Governments to PROTECT their Vital Documents that 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.

**YPB Group Ltd**  
**Appendix 4E**  
**Preliminary final report**

**1. Results for announcement to the market**

			<b>\$'000</b>
Revenues from ordinary activities	up	74.0% to	2,982
Loss from ordinary activities after tax attributable to the owners of YPB Group Ltd	up	143.1% to	(16,441)
Loss for the year attributable to the owners of YPB Group Ltd	up	143.1% to	(16,441)

*Dividends*

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

*Comments*

The loss for the Group after providing for income tax amounted to \$16,441,000 (31 December 2015: \$6,762,000).

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**2. Net tangible assets**

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Total assets per ordinary security	<u>8.83</u>	<u>15.12</u>
Net tangible assets per ordinary security	<u>0.67</u>	<u>2.97</u>

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**3. Control gained over entities**

Not applicable.

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**4. Loss of control over entities**

Not applicable.

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**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.

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**6. Dividend reinvestment plans**

Not applicable.

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## 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

The financial statements are in the process of being audited.

## 10. Signed

Signed

*John W. H. H. H. H.*

Date: 28 February 2017

**YPB Group Ltd**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2016**

		<b>Consolidated</b>	
		<b>31 December</b>	<b>31 December</b>
	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>	2	2,982	1,714
<b>Expenses</b>			
Production costs		(1,823)	(221)
Consulting fees		(1,068)	(1,377)
Depreciation and amortisation expense		(970)	(902)
Directors' fees		(171)	(197)
Employee benefits expense		(5,126)	(1,039)
Finance costs		(198)	(197)
Rental expenses		(409)	(304)
Research and development		(1,570)	(1,380)
Marketing		(561)	(183)
Traveling expense		(1,253)	(645)
Options expense		(202)	-
Share-based payments		(515)	(282)
Commissions expense		-	(797)
Regulatory expenses		(234)	(250)
Professional fees		(316)	(142)
Other expenses		(851)	(560)
Impairment expense		(3,267)	-
Diminution in fair value of financial assets		(1,060)	-
<b>Loss before income tax benefit</b>	3	(16,612)	(6,762)
Income tax benefit		171	-
<b>Loss after income tax benefit for the year attributable to the owners of YPB Group Ltd</b>		(16,441)	(6,762)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(225)	731
Other comprehensive income for the year, net of tax		(225)	731
<b>Total comprehensive loss for the year attributable to the owners of YPB Group Ltd</b>		<b>(16,666)</b>	<b>(6,031)</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	17	(8.76)	(5.44)

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

**YPB Group Ltd**  
**Statement of financial position**  
**As at 31 December 2016**

		<b>Consolidated</b>	
		<b>31 December</b>	<b>31 December</b>
	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	2,715	2,877
Trade and other receivables	5	729	1,221
Inventories	6	348	179
Financial assets	7	2,250	3,347
Total current assets		<u>6,042</u>	<u>7,624</u>
<b>Non-current assets</b>			
Plant and equipment	8	588	313
Intangibles	9	12,081	16,176
Financial assets	7	-	1,653
Total non-current assets		<u>12,669</u>	<u>18,142</u>
<b>Total assets</b>		<u>18,711</u>	<u>25,766</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	2,177	1,418
Total current liabilities		<u>2,177</u>	<u>1,418</u>
<b>Non-current liabilities</b>			
Borrowings	11	3,024	3,104
Other liabilities		1	-
Total non-current liabilities		<u>3,025</u>	<u>3,104</u>
<b>Total liabilities</b>		<u>5,202</u>	<u>4,522</u>
<b>Net assets</b>		<u>13,509</u>	<u>21,244</u>
<b>Equity</b>			
Issued capital	12	40,437	33,606
Reserves	13	4,931	3,056
Accumulated losses		<u>(31,859)</u>	<u>(15,418)</u>
<b>Total equity</b>		<u>13,509</u>	<u>21,244</u>

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



**YPB Group Ltd**  
**Statement of changes in equity**  
**For the year ended 31 December 2016**

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Issued options \$'000</b>	<b>Foreign currency translation Reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Share based payment reserve \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 January 2015	17,449	-	1,835	(8,656)	97	10,725
Loss after income tax expense for the year	-	-	-	(6,762)	-	(6,762)
Other comprehensive income for the year, net of tax	-	-	731	-	-	731
Total comprehensive profit/(loss) for the year	-	-	731	(6,762)	-	(6,031)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued, net of transaction costs	16,144	-	-	-	-	16,144
Options exercised during the year	13	-	-	-	-	13
Options issued during the year	-	393	-	-	-	393
Balance at 31 December 2015	<u>33,606</u>	<u>393</u>	<u>2,566</u>	<u>(15,418)</u>	<u>97</u>	<u>21,244</u>

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Issued options \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Share based payment reserve \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 January 2016	33,606	393	2,566	(15,418)	97	21,244
Loss after income tax benefit for the year	-	-	-	(16,441)	-	(16,441)
Other comprehensive loss for the year, net of tax	-	-	(225)	-	-	(225)
Total comprehensive loss for the year	-	-	(225)	(16,441)	-	(16,666)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued, net of transaction costs	6,569	-	-	-	-	6,569
Options exercised during the year	2	-	-	-	-	2
Shares granted from consulting agreement	260	-	-	-	-	260
Options granted during the year	-	1,182	-	-	-	1,182
Share based payments	-	-	-	-	918	918
Balance at 31 December 2016	<u>40,437</u>	<u>1,575</u>	<u>2,341</u>	<u>(31,859)</u>	<u>1,015</u>	<u>13,509</u>

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

**YPB Group Ltd**  
**Statement of cash flows**  
**For the year ended 31 December 2016**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		3,262	828
Payments to suppliers and employees		(12,755)	(6,595)
Interest received		37	77
Finance costs		(198)	(1)
		<hr/>	<hr/>
Net cash used in operating activities	16	(9,654)	(5,691)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(353)	(299)
Payments for acquisitions of subsidiaries (net of cash acquired)	14	-	(423)
Proceeds from disposal of intangibles		-	(39)
		<hr/>	<hr/>
Net cash used in investing activities		(353)	(761)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net of costs)		7,334	6,752
Proceeds from issue of options		880	393
Repayment of loan from related party		(8)	(197)
Proceeds from loans provided by related parties		-	(24)
Settlement of deferred share consideration		1,690	-
Repayment of borrowings		(51)	-
		<hr/>	<hr/>
Net cash from financing activities		9,845	6,924
Net (decrease)/increase in cash and cash equivalents		(162)	472
Cash and cash equivalents at the beginning of the financial year		<hr/> 2,877	<hr/> 2,405
Cash and cash equivalents at the end of the financial year	4	<hr/> <hr/> 2,715	<hr/> <hr/> 2,877

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

**YPB Group Ltd**  
**Notes to the financial statements**  
**31 December 2016**

**Note 1. Operating segments**

*Identification of reportable 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.

*Types of products and services*

For the year ended 31 December 2016, 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.

<b>Consolidated - 31 December 2016</b>	<b>Print Solutions \$'000</b>	<b>Other segments \$'000</b>	<b>Total \$'000</b>
<b>Revenue</b>			
Sales to external customers	662	2,283	2,945
Interest revenue	-	37	37
<b>Total revenue</b>	<b>662</b>	<b>2,320</b>	<b>2,982</b>
<b>EBITDA</b>	<b>(564)</b>	<b>(11,613)</b>	<b>(12,177)</b>
Depreciation and amortisation	(13)	(957)	(970)
Impairment of assets	(117)	(3,150)	(3,267)
Finance costs	-	(198)	(198)
<b>Loss before income tax benefit</b>	<b>(694)</b>	<b>(15,918)</b>	<b>(16,612)</b>
Income tax benefit			171
<b>Loss after income tax benefit</b>			<b>(16,441)</b>
<b>Assets</b>			
Segment assets	140	18,571	18,711
<b>Total assets</b>			<b>18,711</b>
<b>Liabilities</b>			
Segment liabilities	177	5,025	5,202
<b>Total liabilities</b>			<b>5,202</b>

**YPB Group Ltd**  
**Notes to the financial statements**  
**31 December 2016**

**Consolidated - 31 December 2015**

	<b>Print Solutions \$'000</b>	<b>Other segments \$'000</b>	<b>Total \$'000</b>
<b>Revenue</b>			
Sales to external customers	744	893	1,637
Interest revenue	3	74	77
<b>Total revenue</b>	<u>747</u>	<u>967</u>	<u>1,714</u>
<b>EBITDA</b>	310	(6,170)	(5,860)
Depreciation and amortisation	-	(902)	(902)
<b>Profit/(loss) before income tax expense</b>	<u>310</u>	<u>(7,072)</u>	<u>(6,762)</u>
Income tax expense			-
<b>Loss after income tax expense</b>			<u>(6,762)</u>
<b>Assets</b>			
Segment assets	<u>491</u>	<u>25,275</u>	<u>25,766</u>
<b>Total assets</b>			<u>25,766</u>
<b>Liabilities</b>			
Segment liabilities	<u>370</u>	<u>4,152</u>	<u>4,522</u>
<b>Total liabilities</b>			<u>4,522</u>

*Geographical information*

	<b>Sales to external customers</b>		<b>Geographical assets</b>	
	<b>31 December 2016 \$'000</b>	<b>31 December 2015 \$'000</b>	<b>31 December 2016 \$'000</b>	<b>31 December 2015 \$'000</b>
Australia	1,271	74	6,220	10,883
Peoples Republic of China and HK	299	379	11,162	13,658
Thailand	331	489	773	700
United States of America	<u>1,083</u>	<u>772</u>	<u>557</u>	<u>525</u>
	<u>2,984</u>	<u>1,714</u>	<u>18,711</u>	<u>25,766</u>

**YPB Group Ltd**  
**Notes to the financial statements**  
**31 December 2016**

**Note 2. Revenue**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Revenue</i>		
Sale of goods	2,945	1,637
<i>Other revenue</i>		
Interest	37	77
Revenue	<u>2,982</u>	<u>1,714</u>

**Note 3. Loss for the period**

The loss for the period includes the following expenses:

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Finance costs	198	197
Research and development costs	1,570	1,380
Depreciation and amortisation	970	902
Impairment of goodwill & customer relationships	3,267	-
Rental expense on operating leases - minimum lease payments	409	304
Diminution in fair value of financial assets	1,060	-
	<u>7,474</u>	<u>2,783</u>

**Note 4. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand	4	10
Cash at bank	2,711	2,867
	<u>2,715</u>	<u>2,877</u>

**Note 5. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	348	891
Sundry receivables	381	330
	<u>729</u>	<u>1,221</u>

**Note 6. Current assets - inventories**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Finished goods - at cost	<u>348</u>	<u>179</u>

**Note 7. Financial assets**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Receivable from Lanstead	<u>2,250</u>	<u>3,347</u>
<b>Non-current</b>		
Receivable from Lanstead	<u>-</u>	<u>1,653</u>
	<u>2,250</u>	<u>5,000</u>

The fair value of the Lanstead receivable as at 31 December 2016 has been estimated as follows:

	<b>Share price</b>	<b>Number of shares Outstanding</b>	<b>Fair value</b>
	<b>\$</b>	<b>\$'000</b>	<b>\$</b>
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		<u>-</u>	<u>(1,060)</u>
Value of the Lanstead receivable at 31 December 2016		<u>9,081</u>	<u>2,250</u>

**Note 7. Current assets - financial assets (continued)**

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 8. Non-current assets - plant and equipment**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Plant and equipment - at cost	750	388
Less: Accumulated depreciation	<u>(162)</u>	<u>(75)</u>
Plant and equipment - at cost	<u><u>588</u></u>	<u><u>313</u></u>

*Reconciliations*

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

<b>Consolidated</b>	<b>Plant and equipment \$'000</b>	<b>Total \$'000</b>
Balance at 1 January 2015	26	26
Additions	299	299
Additions through business combinations (note 14)	13	13
Exchange differences	30	30
Depreciation expense	<u>(55)</u>	<u>(55)</u>
Balance at 31 December 2015	313	313
Additions	353	353
Exchange differences	2	2
Depreciation expense	<u>(80)</u>	<u>(80)</u>
Balance at 31 December 2016	<u><u>588</u></u>	<u><u>588</u></u>

**Note 9. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	3,089	3,084
Less: Accumulated impairment losses	(3,089)	-
	<u>-</u>	<u>3,084</u>
Intellectual property - at cost	13,804	13,734
Less: Accumulated amortisation	(1,723)	(833)
	<u>12,081</u>	<u>12,901</u>
Customer relationships - at cost	206	205
Less: Accumulated impairment losses	(178)	-
Less: Accumulated amortisation	(28)	(14)
	<u>-</u>	<u>191</u>
	<u><u>12,081</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 year are set out below:

<b>Consolidated</b>	<b>Goodwill \$'000</b>	<b>Intellectual property \$'000</b>	<b>Customer relationships \$'000</b>	<b>Total \$'000</b>
Balance at 1 January 2015	-	11,096	-	11,096
Additions through business combinations (note 14)	2,830	1,579	189	4,598
Exchange differences	254	1,059	16	1,329
Amortisation expense	-	(833)	(14)	(847)
	<u>3,084</u>	<u>12,901</u>	<u>191</u>	<u>16,176</u>
Balance at 31 December 2015	3,084	12,901	191	16,176
Exchange differences	5	70	1	76
Impairment losses	(3,089)	-	(178)	(3,267)
Amortisation expense	-	(890)	(14)	(904)
	<u>-</u>	<u>(890)</u>	<u>(14)</u>	<u>(904)</u>
Balance at 31 December 2016	<u><u>-</u></u>	<u><u>12,081</u></u>	<u><u>-</u></u>	<u><u>12,081</u></u>



**Note 9. Non-current assets - intangibles (continued)**

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 or loss and other comprehensive income.

- a) The intangible asset additions arising from the three acquisitions concluded during the financial year ended 31 December 2015 amounted to \$4,598 million, as outlined in detail in note 14.

During the subsequent measurement period, which ended during the 2016 financial year, all three acquisitions were subjected to a detailed purchase price valuation process, conducted by an independent valuation expert.

The fair value of identifiable intangibles, in the form of customer relationships and intellectual property, was consequently firmed up and adjustments were retrospectively applied.

- b) In determining the recoverable amounts as at 31 December 2016, the directors have changed from utilising a 'relief from royalty' methodology and adopted a 'value in use' methodology instead.

The 'value in use' modelling has been determined for each cash-generating unit, as defined, and as at 31 December 2016, the carrying value of customer relationships and goodwill was identified to be greater than the fair value, as determined, giving rise to the recognition of impairment charges for the respective intangible asset classes.

**Note 10. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	1,202	1,057
Sundry payables and accruals	975	361
	<u>2,177</u>	<u>1,418</u>

**Note 11. Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Loans to related parties	<u>3,024</u>	<u>3,104</u>

The loans include facilities provided by related entities of John Houston. The loans attract at a rate of 8%, are unsecured and repayable in full on or after 1 January 2018.

**Note 12. Equity - issued capital**

	<b>Consolidated</b>			
	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	<u>211,887,886</u>	<u>170,400,287</u>	<u>40,437</u>	<u>33,606</u>

**Note 12. Equity - issued capital (continued)**

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>\$'000</b>
Balance	1 January 2015	108,921,678	17,449
Issued under share-based payments	4 February 2015	73,333	22
Exercise of share options	6 February 2015	10,357	2
Issued under share placement	24 February 2015	10,000,000	3,000
Exercise of share options	2 March 2015	29,618	6
Exercise of share options	15 April 2015	1,607	1
Issued under Share Purchase Plan	28 April 2015	4,522,182	1,357
Shares issued on acquisition of IPP	7 May 2015	1,170,913	390
Exercise of share options	15 June 2015	7,500	2
Exercise of share options	30 June 2015	5,000	1
Shares issued on acquisition of CFC	1 September 2015	1,094,830	383
Share based payment to executives	1 September 2015	401,283	140
Share based payment to executives	12 October 2015	400,000	142
Shares issued on acquisition of Ntouch	30 October 2015	12,857,143	3,350
Exercise of share options	16 November 2015	3,000	1
Issued under share placement	29 December 2015	10,709,536	2,784
Shares issued to Lanstead	29 December 2015	19,230,769	5,000
Issued under share-based payments	29 December 2015	961,538	250
Less: Transaction costs on shares issued, net of tax		-	(674)
Balance	31 December 2015	170,400,287	33,606
Exercise of share options	17 February 2016	10,000	2
Issuance in accordance with consulting arrangement	17 February 2016	1,000,000	260
Issued in lieu of directors' fees	13 May 2016	648,486	-
Share placement	30 May 2016	18,916,667	4,540
Issued under share-based payments	6 June 2016	944,446	227
Issued under share-based payments	8 August 2016	200,000	-
Issued under share-based payments	8 August 2016	3,488,000	-
Share placement	26 October 2016	16,000,000	3,120
Issued under share-based payments	27 October 2016	280,000	-
Less: Transaction costs on shares issued, net of tax		-	(1,318)
Balance	31 December 2016	<u>211,887,886</u>	<u>40,437</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.

**Note 12. Equity - issued capital (continued)**

*Movements in options on issue*

Details	Date	Options	\$'000
Balance	1 January 2015	750,000	-
Options issued	28 April 2015	2,130,546	21
Options issued	24 February 2015	10,000,000	100
Options issued	4 February 2015	4,453,301	45
Options issued	23 January 2015	22,777,119	227
Less options exercised		(57,082)	-
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
Options issued as sign on fee	8 August 2016	400,000	9
Options issued upon purchase of shares by employees	27 October 2016	788,000	34
Options issued as part of capital raising	12 December 2016	64,000,000	880
Balance	31 December 2016	<u>112,231,884</u>	<u>1,575</u>

*Options*

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

Volatility	Between 54.55% and 63.22%
Risk-free rate	Between 4.37% and 4.46%
Weighted average term (years)	2.73
Weighted average remaining life at 31 December 2016	2.22

Issue Date	Description
6 June 2016	4,000,000 options have an exercise price of \$0.50 per share and the remaining 3,000,000 options have an exercise price of \$0.75 per share. 6,000,000 of the options expire on 28 February 2019 and 1,000,000 of the options expire on 6 March 2020.
8 August 2016	200,000 options have an exercise price of \$0.50 per share and the remaining 200,000 options have an exercise price of \$0.35 per share. The options expire on 1 August 2018.
27 October 2016	394,000 options have an exercise price of \$0.50 per share, 280,000 options have an exercise price of \$0.35 per share, and the remaining 114,000 options have an exercise price of \$0.75 per share. 560,000 of the options expire on 27 October 2018 and 228,000 of the options expire on 27 April 2018.
12 December 2016	Options were issued with the following exercise prices: <ul style="list-style-type: none"> <li>• 16,000,000 options at \$0.35</li> <li>• 16,000,000 options at \$0.45</li> <li>• 16,000,000 options at \$0.55</li> <li>• 16,000,000 options at \$0.65</li> </ul>

**Note 12. Equity - issued capital (continued)**

*Capital risk management*

Management controls the capital of the group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital, redeemable preference shares, convertible preference shares and financial liabilities, supported by financial assets.

The group is not subject to any externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

The gearing ratios as at 31 December 2016 and 31 December 2015 are as follows:

	<b>Note</b>	<b>Consolidated</b> <b>31 December</b> <b>2015</b> <b>\$</b>	<b>31 December</b> <b>2015</b> <b>\$</b>
Total borrowings	11	3,024	3,104
Less cash and cash equivalents	4	(2,715)	(2,877)
Net debt		309	227
Total equity		13,509	21,244
Total capital		13,818	21,471
Gearing ratio		2%	1%

**Note 13. Equity - reserves**

	<b>Consolidated</b> <b>31 December</b> <b>2016</b> <b>\$'000</b>	<b>31 December</b> <b>2015</b> <b>\$'000</b>
Foreign currency reserve	2,341	2,566
Options reserve	1,575	393
Share-based payments reserve	1,015	97
	<u>4,931</u>	<u>3,056</u>

*Foreign currency translation reserve*

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

*Issued Options reserve*

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

*Share-based payments reserve*

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

**Note 13. Equity - reserves (continued)**

*Movements in share based payments*

Details	Date	\$'000
Balance	1 January 2015	97
Balance	31 December 2015	97
Issued under share-based payments	13 May 2016	203
Issued under share-based payments	8 August 2016	36
Conversion of performance rights	8 August 2016	627
Issued under share-based payments	27 October 2017	52
Balance	31 December 2016	1,015

**Note 14. Business combinations**

***Acquisition of Intellectual Property Protection Co Ltd and Intellectual Product Protection Inc (IPP)***

On 7 May 2015, the Company acquired a security consulting business specialising in providing high security programs to governments, major brands and fortune 500 companies which operates under the name "Intellectual Product Protection" or "IPP" for a provisional consideration of \$641,000 (US\$500,000) of which \$252,000 (US\$200,000) was paid/payable in cash and the balance by the issue shares in YPB Group Limited as shown in Note 12, and as disclosed in the financial report for the year ended 31 December 2015.

The measurement period relating to the acquisition of IPP ended during the current financial year. The independent valuation of the purchase price allocation has been finalised whereby the intellectual property allocation was confirmed at \$400,000 with a corresponding adjustment to goodwill arising from that acquisition.

In line with reporting requirements, any measurement period adjustments identified during the year ended 31 December 2016 have been taken up retrospectively and the comparative position adjusted accordingly.

**Note 14. Business combinations (continued)**

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	21
Trade and other receivables	118
Intellectual property	400
Plant and equipment	13
Trade and other payables	(5)
Borrowings	(23)
	<hr/>
Net assets acquired	524
Goodwill	117
	<hr/>
Acquisition-date fair value of the total consideration transferred	641
	<hr/> <hr/>
Representing:	
- Cash paid / payable	252
- Issuance of shares	389
	<hr/>
	641
	<hr/> <hr/>
Purchase consideration - cash outflow	
Cash consideration	252
less: Unpaid cash	(126)
Less: Cash and cash equivalents	(21)
	<hr/>
Net cash used during the 2015 financial year	105
	<hr/> <hr/>

**Note 14. Business combinations (continued)**

***Acquisition of Continuous Forms Control Inc (CFC)***

Effective 31 August 2015, the Company acquired all the issued shares of the US based printing company Continuous Forms Control Inc., since renamed YPB Print Solutions Inc. ('Print Solutions') for a provisional consideration of \$1,007,000 (US\$600,000) of which \$285,000 (US\$300,000) was paid/payable in cash, \$339,000 (US\$243,000) was settled of pre-existing relationships and the balance by the issue of shares in YPB Group Limited as shown in Note 12, and as disclosed in the financial report for the year ended 31 December 2015.

The measurement period relating to the acquisition of YPB Print Solutions Inc. ended during the current financial year. The independent valuation of the purchase price allocation has been finalised whereby the customer relationships allocation was confirmed at \$198,000 with a corresponding adjustment to goodwill arising from that acquisition.

In line with reporting requirements, any measurement period adjustments identified during the year ended 31 December 2016 have been taken up retrospectively and the comparative position adjusted accordingly.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Bank overdraft	(33)
Trade receivables	453
Inventories	32
Other current assets	7
Customer relationships	198
Trade payables	(418)
Other payables	(58)
Other liabilities	(42)
	<hr/>
Net assets acquired	139
Goodwill	868
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>1,007</u>
Representing:	
Cash paid / payable	285
Issuance of shares	383
Pre-existing relationships	339
	<hr/>
	<u>1,007</u>
Purchase consideration - cash outflow	
Cash consideration	285
Add: cash and cash equivalents	33
	<hr/>
Net cash used during the 2015 financial year	<u>318</u>

**Note 14. Business combinations (continued)**

***Acquisition of nTouch Holdings Pty Ltd***

Effective 31 October 2015, the company acquired all the issued shares of proximity marketing technology company nTouch Holdings Pty Ltd ('nTouch'). The transaction was based on an all script offering of 12,857,143 YPB shares at a price of 35c per share. Management had however determined that the fair value of the YPB shares is \$0.26 per share, on the basis that shares placed at and around this time were at \$0.26.

nTouch is a unique marketing platform that leverages proximity technologies to allow business clients to engage with customers (B2C) based on time, location and specific user characteristics. The nTouch group of companies has launched a fully tested communications platform which integrates with YPB's customer engagement strategy around product authenticity.

The measurement period relating to the acquisition of nTouch ended during the current financial year. The independent valuation of the purchase price allocation has been finalised whereby the intellectual property allocation was confirmed at \$944,000 with a corresponding adjustment to goodwill arising from that acquisition.

In line with reporting requirements, any measurement period adjustments identified during the year ended 31 December 2016 have been taken up retrospectively and the comparative position adjusted accordingly.

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Intellectual property	944
Net assets acquired	944
Goodwill	2,406
Acquisition-date fair value of the total consideration transferred	<u>3,350</u>
Representing:	
YPB Group Ltd shares issued to vendor	<u>3,350</u>

**Note 15. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>
YPB Limited (HK)	Hong Kong
YPB Technology (Beijing) Limited	PRC China
Product ID & Quality Systems (Beijing) Ltd	PRC China
Brand Reporter Pty Ltd	Australia
YPB Group (USA) Inc	USA
Intellectual Product Protection Inc	USA
YPB Print Solutions Inc	USA
YPB Group Co., Ltd	Thailand
nTouch Holdings Pty Ltd	Australia
nTouch Agency Pty Ltd	Australia
nTouch Pty Ltd	Australia
nTouch IP Pty Ltd	Australia



**Note 16. Reconciliation of loss after income tax to net cash used in operating activities**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax	(16,441)	(6,762)
Adjustments for:		
Depreciation and amortisation expense	970	902
Options expense	202	-
Share-based payments	515	282
Impairment of goodwill & customer relationships	3,267	-
Unrealised foreign exchange	(308)	-
Diminution in fair value of derivative assets	1,060	-
Change in operating assets and liabilities; net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	213	(470)
(Increase) in inventories	(169)	(10)
Increase/(decrease) in trade and other payables	1,037	367
Net cash used in operating activities	<u>(9,654)</u>	<u>(5,691)</u>

## Note 17. Earnings per share

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Loss after income tax attributable to the owners of YPB Group Ltd	<u>(16,441)</u>	<u>(6,762)</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>187,755,202</u>	<u>124,326,070</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>187,755,202</u>	<u>124,326,070</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(8.76)	(5.44)
Due to losses of the YPB Group, diluted earnings per share have not been presented.		