

2016 ANNUAL REPORT

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Chairman's Letter

Dear fellow shareholder,

I thank all shareholders, the Board of Directors and the YPB team for their support and shared belief in my vision to build a Company that that will lead the way to fight counterfeit for the benefit of Brands and customers, eventually all over the world. From its inception in China, by end 2016 YPB had extended its operating footprint to Australia and New Zealand, the ASEAN region, the Sub-Continent, the USA and Mexico.

Since listing on the ASX in 2014, YPB has built-out a unique technology suite that empowers clients to PROTECT their high value brands from the risks of counterfeit, DETECT fakes, product diversion and theft, and CONNECT directly with their customers. The expanded geographic footprint in high need, high value, high opportunity markets is aimed at the rapid monetisation of our valuable intellectual property.

Visionary brand owners are awakening to the need for active Brand Protection and Anti-Counterfeit strategies and the value of direct Customer Engagement. YPB is in the vanguard of this rapidly developing opportunity with its unique end-to-end PROTECT, DETECT, CONNECT solution suite. In converting this substantial prospect to substantial shareholder wealth, three powerful, structural, global tailwinds are building and will increasingly propel us:

1. The emergence of the "middle class" in China and Pan Asia, with as many as 800 plus million potential customers for scores of quality products, especially from Australia and New Zealand. The increasing desire of Western exporters to tap these markets is creating a major opportunity for YPB to PROTECT products in Asian markets and DETECT the incidence of fakes and insecure and leaking supply chains.
2. The rapidly changing world of "mass marketing" and the emergence of new direct "one to one" customer marketing. YPB is unique with its proposition that *authenticity triggers engagement*: that is, the desire to confirm authenticity will trigger a customer to actively engage with a brand (especially in China and Asia) when under most circumstances they would not. This is a major opportunity for YPB's CONNECT solution on smartphones.
3. The pressing need for Governments to more rigorously protect Vital Government Documents as a key defence against terrorism and illegal migration. YPB has a major opportunity with its range of technologies to increasingly PROTECT Vital Government Documents.

These dynamic trends are creating dynamic, large markets for our technologies. They assisted in the almost six-fold growth in the value of our new business pipeline over 2016 to a potential annual revenue value of \$112m. This was our key achievement for the year.

Most of this growth occurred from mid-2016 and was driven by our newly filled, high caliber executive team led by CEO Jens Michel. Jens was promoted to CEO in March 2016 after proving his skill and capacity as COO.

Jens is an exceptional hire for YPB, he has extensive experience across Asia, Australia, NZ and Europe and prior to joining YPB served as Pan-ASEAN Regional Vice President for a US\$1.7 billion revenue multinational medical technology company and Country Head for a CHF5 billion revenue market expansion services business. With the team now well settled, we will hit the ground running in 2017 with a big pipeline in place and with greater experience and skill in dealing with client opportunities and speed-bumps to contract closure.

The biggest disappointment of 2016 was that the clear and significant progress of the business did not translate strongly to the financial scoreboard. We expect that to change in 2017 as we convert prospects and potential into revenue.

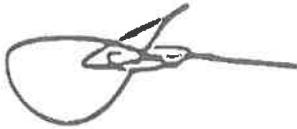
Building on the lessons of 2016, our 2017 strategy is more tightly focussed and refined. Together with the evidence in 2016 of the superiority of our *multiplier partnership* model in terms of market penetration and risk reduction, our cost base will reduce by 40% (annualised) by mid-year.

This refined strategy and leaner cost base reflects the determination of the Board and Management to secure YPB's future by achieving robust profitability while maintaining rapid growth. While disappointing

to see the expected break-even point slip from end March to end June 2017, as advised to the ASX on February 2nd 2017, we were pleased to reiterate an expected profit of \$5m pre-tax for 2017. We look forward to reporting achievement of those goals to shareholders.

In the longer term, the Board is conscious of its grave responsibility in stewarding shareholder capital. Shareholder wealth can only be created by deploying capital to opportunities with strong returns and tolerable and manageable risk. YPB is fortunate in that unique intellectual property is demonstrably the ultimate wealth creation vehicle as returns are high and capital needs low. We are ideally positioned to benefit from our substantial investment since inception in intellectual property, people and networks. Precise and effective execution of our commercial rollout is now the key to enriching shareholders and realising my vision of creating a valuable, global, enduring franchise in Brand Protection and Customer Engagement.

Yours truly,

A handwritten signature in black ink, appearing to read 'John Houston', with a large, stylized loop on the left side and a horizontal line extending to the right.

John Houston
Executive Chairman

Chief Executive Officer's Report

I am pleased to report on a year of solid achievement for YPB in which we largely completed building the platform for strong future growth. Key management appointments were made, products were enhanced and extended, new geographies entered, and important clients and distributor partnerships won.

1. People

Having built-out our technology suite over 2014 and 2015, our primary task of 2016 was hiring the talent to drive the commercial rollout of our unique technologies. Pleasingly, we have assembled a team of proven business builders experienced in growing and operating large businesses, and with particular expertise in Asia. Shareholders should be encouraged that this group of seasoned operators were so enthused by YPB's potential that they left bigger, more prestigious employers to be part of the creation of a substantial new enterprise.

The senior management group now comprises:

Greg O'Shea – Chief Operating Officer – Over 25 years in supply-chain management. Prior to YPB, Managing Director of a global supply chain management company operating in Thailand, Vietnam, Cambodia and Myanmar and prior to that Regional Director - Americas for a UK based global supply chain business specialising in the chemical, fuel, gas and food industries.

Jason York – Chief Financial Officer - Over 20 years in corporate financial management and chartered accounting. Prior to YPB, Vice President of Finance for the Asia Pacific region for a medical technology company with annual revenues of US\$1.7 billion.

Juha Pelkonen - Chief Marketing Officer - 20-years of experience in building global brands for the world's largest advertising agency networks. Most recently responsible for the international marketing operations of a top tier pharmaceutical company in Australia.

Timothy Merchant - Chief Technical Officer - 35 years expertise in government and currency printing, anti-counterfeit, and forensic evaluation services

Sheldon Brady – MD Australia and New Zealand – Over 25 years of commercial and financial experience from Structured & Asset Finance, Professional Services, Financial Markets and Risk Management across ANZ, Asia and Europe.

Philipp Hoffman – President YPB Connect – 15 years of managerial experience in a variety of industries such as Banking, Distribution, Manufacturing and Engineering in Europe and Asia.

Tianya Song – General Manager China – Over a decade in FMCG and Pharmaceutical Packaging with experience in managing both Western and Chinese companies.

2. Product

Further enhancements were made to our key technologies over 2016:

- A third generation scanner in our core *YPB Tracer and Scanner* Anti-Counterfeit technology range was released. This scanner is smaller, lighter and lower cost to manufacture, and sells for a lower price than previous models.
- *YPB Securetrack* software was successfully developed and released. *Securetrack* is a "track and trace" application which complements the *YPB Tracer and Scanner* to increase the security of supply chains. Early customer interest in this product has proven significant.
- Completion of the new generation of our Customer Engagement software, *YPB CONNECT*. *CONNECT* is now on a more robust software architecture with greater scalability and broader functionality.

Together, our technologies not only protect against counterfeiting and broken supply chains but they support the creation and deployment of *intelligent packaging*. The greatest benefit of intelligent packaging is that it can transform packaging into an interactive marketing asset allowing the product owner to build a direct relationship with the customer. This is based on the core YPB proposition that *authenticity triggers engagement*. The combination of an intelligent package and the *YPB CONNECT* platform supports various strategies to encourage a customer to interact with the package via their mobile phone and ultimately engage with the brand. Examples include:

- Confirmation of authenticity;
- Production history and provenance information;
- Supply chain history and data;
- Competitions;
- Automated warranty registrations;
- Transactions; and
- Surveys.

As the customer is triggered to interact with the package, *YPB CONNECT* captures customer data. Instantly, the Brand has the information to build an ongoing, direct and personal relationship with the customer, or potential customer, via tailored product offers and messaging. As *YPB CONNECT* was presented to potential clients during 2016, we received strong confirmation that it is indeed a novel and unique technology and that Brands are excited by its potential to make informed and intelligent connections directly with customers.

In August 2016, we extended the PROTECT product range into Retail Anti-Theft with Woolworths' liquor businesses Dan Murphy's and BWS the first clients. Several other national chains were added to the client list later in the year. The product range is largely third-party sourced but it occupies valuable niches with attractive margins and is proving a solid profit contributor with clear growth potential. Importantly, it also creates the relationships and networks for further penetration of the retail market with other elements of YPB's solution suite, most notably CONNECT.

Although not a new product line, our VariSec security foil made solid progress in the passport market and is now used by a major Western nation, a large South-East Asian nation and a leading African nation to upgrade the security of their passports. The passport sector can grow into a meaningful earnings contributor over time, but perhaps its greatest benefit is the credibility being a trusted supplier of critical applications to Government confers on all of our PROTECT and DETECT technologies.

3. Geographies

In 2016, we rapidly extended our geographic range. YPB was originally China-centric but began its geographic expansion in late 2015 and, as noted by the Chairman, we now operate in six key geographies.

In 2016 we established our International Operating Headquarters in Bangkok. Thailand is a low-cost jurisdiction, ideally located to service all of Asia and the Sub-Continent. In early 2017, the Government of Thailand issued YPB with "International Headquarters BOI Status" which has substantial tax benefits and benefits for the movement, residency and cost of personnel.

Australia and New Zealand had hitherto been low priorities for YPB given minimal incidence and awareness of counterfeiting in those countries. But as 2015 progressed, the spectacular success of several listed companies in selling to China inspired many imitators to accelerate their own export plans. Market entry research into Asian markets led to a surge in the recognition of the need for protection against fakes. In 2016, we devoted resource into ANZ for the first time and with considerable success. We are now progressing numerous valuable opportunities in ANZ and the opportunity set is progressing strongly.

In late 2015, we fielded an enquiry about applying our PROTECT technologies to a range of Vital Government Documents in Mexico. We soon identified a much greater opportunity than simple product

supply and in early 2016 formed an alliance with Affyrmx LLC to market PROTECT products across a range of Federal and State Government *Vital Government Documents* applications in Mexico. Affyrmx had early success winning four Vital Records supply contracts with four Mexican States in its first four months. Other, much larger opportunities are in train but progress has lagged original expectations due to the speed of Government processes. We remain optimistic that several important deals can be closed in the first half of 2017 and that Mexico will prove an important contributor to YPB's future profitability.

From our Bangkok hub we developed a number of projects in Thailand and had our first success in Indonesia. We are progressing other ASEAN opportunities some of which are substantial.

We also entered India in joint venture with cricket doyen Sachin Tendulkar and entered Pakistan with a highly experienced and well connected partner. Present indications are that both markets can make solid contributions in 2017.

Our US operations have underperformed due primarily to the family illness of senior management there.

4. Clients and Partners

As the Chairman noted, our team did an excellent job in identifying and progressing substantial new business opportunities, with most of this activity occurring in the second half of 2016 after key management positions were filled. As at end December, there were 98 new business projects at various stages of development in our pipeline. Those projects have a possible aggregate annual revenue value of \$112m if successfully closed. We believe a large proportion, if not all, of these projects can be brought to successful conclusion, but we do not expect all projects to conclude in 2017. Nevertheless, converting only a portion of the pipeline into revenue will transform YPB and see our financial expectations for 2017 realised.

Building our pipeline obviously requires many meetings with potential clients. The market feedback we received over 2016 confirmed important aspects of our market and our strategy:

i. We have unique intellectual property, the market is ripe and there are few players

Potential clients are very interested in our technologies. They recognise the *need* for anti-counterfeit solutions and they *want* to connect directly with their customers, due to the immense value of a one-on-one relationship and the likelihood of more effective marketing spend.

An important confirmation from client meetings in 2016 was that there are very few Anti-Counterfeit and Customer Engagement technologies in the market - in fact, most clients are not considering nor are aware of any competitive offers. That is largely due to the relative novelty of advanced Anti-Counterfeit and Direct Customer Engagement solutions.

Although 'taggant' technologies of various sorts have been around for over 20 years, the market for them has been limited as fakes were not a problem for most Brand owners (and many of these technologies afford limited protection). But the desire to sell to 800 million new Pan-Asian middle class consumers who are increasingly seeking quality, Western products but who live in the midst of endless counterfeiting has led to recognition of the *need* for Brand Protection technologies.

At the same time, Brands are battling with the proliferation of marketing options created by digital technologies and *want* to utilise marketing budgets more effectively in Direct Customer Engagement.

The fact that we can solve Brands' *needs* and *wants* with a complete end-to-end solution suite is proving exciting to potential clients. Further, being able to solve multiple client problems is a great aid in gaining initial client access and engagement, and in creating a greater variety of pricing options and revenue opportunities. While competition is very limited presently, we do expect competition to grow. Fortunately, it will be many years before this becomes an issue for YPB as the field is so green and its boundaries so wide.

ii. Partnering is smart, effective and speeds market penetration while minimising risk

A further important confirmation in 2016 was that partnering is our best route to market in many instances and is mandatory in some markets, although we do sell directly where effective and appropriate.

Our *multiplier partnership* strategy is central to penetrating a wide spread of markets without the risk and inflexibility of a big fixed cost base and high deployed capital, while significantly multiplying the effectiveness of our internal resources. One YPB employee can service numerous partners who have established, strong relationships with many clients. In this way our resource is magnified and multiplied to reach a much greater potential market than would have been the case through selling solely to end customers.

Further, quality partners have networks and access that young, unknown companies can only dream of. Via partners, we have met potential clients of a quality that YPB alone would have taken years to penetrate, if ever, and at the highest echelons of decision making in both Government and commerce. Such access not only speeds market entry but also increases the size of prospective opportunities. Sharing revenue with our partners is the direct cost of the model but that cost is swamped by the expected payoff to YPB.

We are delighted to have established numerous high quality partnerships during 2016. They can be characterised as falling into two categories: packaging companies and those with high-value networks in specific geographies or specific vertical markets.

Packaging companies are obvious partners for YPB as not only can they directly help protect their clients' products with a low cost, highly effective Anti-Counterfeit solution, they can competitively position and differentiate themselves as innovators with ground-breaking solutions. They also typically have very large customer bases.

The most significant partnerships established during the year, in chronological order, were:

- Affyrmx alliance covering Mexico and Latin America.
- Sachin Tendulkar joint marketing agreement in India.
- Multi-national Australian packaging giant Orora (ASX:ORA) as channel partner.
- Comtech Solutions NZ as channel partner to NZ exporters.
- Leading Australian tube manufacturer for FMCG goods Impact International.
- US international total packaging solutions provider L&E.

We are also working with or have identified a number of other valuable partnerships that have not been disclosed for confidentiality reasons.

In addition to channel partners, we also secured a number of prominent clients during 2016 including:

- Australian wellness products market leader Blackmores for the complete YPB solution suite.
- Woolworths liquor chains Dan Murphy's and BWS for Retail Anti-Theft solutions.
- A tier 1 global pharmaceutical company for IP protection solutions consulting.
- Leading Indonesian pharmaceutical manufacturer and marketer Combiphar for the full YPB solutions suite.
- Australian maternal nutritional products producer Mamacare to PROTECT its exports.
- Australian women's active wear creator Lorna Jane for Retail Anti-Theft solutions in Australia and the USA.
- The Mexican States of Jalisco, Guanajuato, Campeche and a large State which cannot be named for Vital Government Documents protection.
- A major South East Asian nation, which cannot be named, for passport technology

5. Financial Review and Outlook

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.

Financial Review 2016

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 also 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 \$12.285m.

Revenue grew 74% to \$2.982m. Although the percentage growth was pleasing, the absolute revenue achieved was still modest and below that needed for profitability. Nevertheless, it was an acceptable outcome for the year given the effort devoted to building capability and the new business pipeline.

There were pockets of revenue disappointment, notably China and the USA, and pockets of positive surprise, notably ANZ. Mexico was a positive surprise in that it was only a possibility at the start of the year, although as previously noted a number of contracts expected to close during 2016 have slipped into 2017 for various reasons. A key part of strategy in 2017 will be ensuring that revenues more than justify an existing cost. If not, remedial cost action will be taken.

Costs, excluding impairments and share-based payments, rose 78% from \$8.194m to \$14.550m. 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.

The cash operating picture was better than the profit report. Cash operating loss was up 70% from \$5.691m to \$9.654m. Cash receipts from customers of \$3.262m was up almost 300% from \$0.828m. Cash receipts exceeded reported revenue by \$0.280m. Cash expenses increased from \$6.595m to \$12.753m.

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.

We are grateful for the support of shareholders during 2016 and the company was successful in raising capital in 2016. In May, \$4.5m was raised at \$0.24 per share and in October \$4.0m was raised at \$0.25 per share.

Financial Outlook 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.

Our Annual Operating Plan (AOP) for 2017 sees a refinement of strategy to a narrower focus of management effort. We expect this to both increase conversion of pipeline projects into revenue and reduce costs by moving from direct sales to partnering in certain territories where costs have been high historically. Revenue potential is unlikely to be diminished by these changes and under the most likely reconfiguration will be substantially enhanced.

A key plank of the 2017 AOP is a 40% reduction in non-COGS (cost-of-goods-sold) costs by May 2017. 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. For the full year 2017, operating costs are expected to be \$7.7m. By mid-2017, costs are expected to fall by 40% from end 2016 levels 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.

Restructuring charges will be incurred to achieve the planned cost reductions. But the magnitude will depend on the final detail of a partnering agreement that is presently nearing conclusion. Depending on the model adopted YPB may incur minimal restructuring costs. In the event of YPB bearing all costs, a once-off charge of \$0.50 - \$0.75m is likely in H1 2017.

The obvious financial benefit from the refined strategy and cost reduction plan is securing profit breakeven at lower revenue and with less risk, and magnifying profit leverage to revenue growth.

Clearly, revenue is the key to achieving our financial expectations for 2017. Although starting from a low base, there are a number of reasons supporting our expectations and we start 2017 in a much superior position to that of the prior year as:

- The assembly of the full, new executive team was only completed in Q3 2016. This year management will hit the ground running with greater experience and skill in winning and closing contracts.
- The opportunity pipeline filled rapidly over 2016, particularly in H2. Starting 2017, new business momentum is strong and well ahead of that as at the start of 2016. Not only has the magnitude of the pipeline grown over the past year but the passage of time means the number of mature projects closer to conclusion is also greater.
- Key Multiplier Partnerships concluded in late 2016 with leading packaging companies such as Orora (ASX: ORA), Impact International and L&E should bear fruit across multiple clients.
- Ease of conversion should also increase following the signing of household name banner clients.
- Upgraded versions of the key software platforms SECURETRACK and CONNECT being available should enhance sales closure and the pace of adoption.
- As observed previously, the incidence of competitive solutions being offered to clients presently engaged with YPB remains close to zero.

Finally, in considering whether the revenue necessary for profitability can be achieved, it is pertinent that the size of the opportunity pipeline and the potential revenue currently in development are well ahead of the revenues necessary to achieve the company's profit expectations. In other words, only relatively modest pipeline conversion rates are necessary to achieve revenue and profit targets.

I am pleased with our achievements in 2016 and am excited by the opportunities ahead. I expect 2017 to be a transformational year for YPB.



Jens Michel
Chief Executive Officer

Directors' Report

The directors present their report and the financial statements of YPB Group Limited, the "Company") and its controlled entities (the "Consolidated Entity") for the company's the financial year ended of 31 December 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 financial 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 | 3 August 2012 | |
| <i>Non-Executive Directors</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 year under review.

2. Principal Activities

The principal activity of the Company during the financial 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

Please refer to the Chairman's and Chief Executive Officer's reports on pages 2 and 4 of this Annual Report.

4. Operating Results

The consolidated loss of the Consolidated Entity, after providing for income tax, was \$16,441,000 (2015: loss \$6,762,000) for the financial year. After adjusting for non-recurring and non-cash expenses of \$3,267,000 for the write-down of intangibles and \$1,060,000 for the mark-to-market adjustment of the Lanstead receivable, the operating loss for the year was \$12,114,000. The increased loss was in line with plan as the commercial roll-out of technologies was accelerated.

The cash used in operating activities was \$9,654,000 (2015: \$5,691,000).

5. Significant Changes in State of Affairs

- 10 February 2016 agreement with Affyrmx in Latin America to protect Vital Government Documents.
- 19 February 2016 first order received by Affyrmx for Jalisco State, Mexico.
- 3 March 2016 Jens Michel appointed CEO, John Houston remains as Executive Chairman.
- 4 March 2016 Gerard Eakin appointed non-Executive Director.
- 7 March 2016 Contract to Protect Beijing Government security passes.
- 11 March 2016 Major US footwear brand adopts Protect solution.
- 23 March 2016 Vital Government Documents order from Guanajuato State, Mexico.
- 11 April 2016 Varisec ePassport protection for Southeast Asian nation.
- 18 April 2016 Protect Australian Made logo on Australian Analytical Laboratories' products.
- 28 April 2016 First re-order of Vital Government Documents for Jalisco State, Mexico.
- 3 May 2016 VariSec passport solution 14 million unit re-order for major Western nation.
- 9 May 2016 Next generation T3 mini scanner released.
- 10 May 2016 Entry into India with cricketer Sachin Tendulkar.
- 11 May 2016 Presentation at 121 Tech Investment Summit Hong Kong.
- 17 May 2016 MOU signed with multi-national packaging giant Orora (ASX:ORA).
- 19 May 2016 Earnings guidance issued for the first time.
- 24 May 2016 Oversubscribed AU\$4.5 million institutional placement.
- 9 June 2016 Affyrmx Vital Government Documents order from unnamed large Mexican State.
- 1 July 2016 Protect first pharmaceutical customer Universal Pharmaceuticals AUS.
- 29 July 2016 Channel partner Impact International major Australian FMCG packaging supplier.
- 5 August 2016 Product extension to Anti-Theft with solutions for Dan Murphy's.
- 17 August 2016 Protect ticketing for leading Beijing private art museum.
- 24 August 2016 Protect food stamps for major charity in Mexico.
- 9 September 2016 Full solution suite to leading Indonesian pharma company, Combiphar – first Indonesian client.
- 22 September 2016 channel partner Impact Packaging delivers first customer.
- 26 October 2016 \$4.0 million placement at \$0.25 per share plus options.
- 7 November 2016 Channel Partner Agreement with Orora Ltd signed (ASX:ORA).
- 21 November 2016 Master Supply Agreement signed with Blackmores Ltd (ASX:BKL).
- 7 December 2016 Protect Mamacare's export range of maternal nutritional milk products.
- 9 December 2016 Three Australian retail chains deploy Anti-Theft solutions over 350 stores.
- 12 December 2016 Leading US based global pharma signs 3 year IP protection consulting.
- 16 December 2016 Channel partner - L & E, leading US packaging company.

6. Financial Position

The net assets of YPB were \$13,509,000 as at 31 December 2016 (2015: \$21,244,000). Cash at balance date was \$2,715,000 (2015: \$2,877,000).

7. Future Developments, Prospects and Business Strategies

See Chief Executive Officer's Report page 4.

8. Dividends Paid

No dividends have been paid or been recommended for payment in respect of the financial year ended 31 December 2016.

9. Events Subsequent to Balance Date

9 January 2017 YPB signs first contract with military in Mexico

13 January 2017 Thai Government awards YPB board of Investment status

2 February 2017 YPB confirms earnings guidance

9 March 2017 YPB received order from Bank of Thailand

13 March 2017 YPB signs MOU with Le Mac Australia

15 March 2017 USA Patent for smartphone connectable scanner granted

10. Directors' & Secretary Experience and Special Responsibilities

John Houston

Executive Chairman

Appointed 31 July 2014

John Houston has over 20 years of international business experience in countries including Australia, New Zealand, Sri Lanka, Thailand, Switzerland and Singapore.

John was the inaugural CEO from pre listing of the Company until 3 March 2016.

John has extensive international experience including building a USD \$2 billion "Greenfield" mobile phone operation in Thailand, running a USD \$350m EBITDA mobile Company in Switzerland, and selling an international Broadband Company for a 70x multiple of EBITDA.

Other current public company directorships: Nil

George (Su) Su

Non-Executive Director

Appointed 31 July 2014

Mr Su headed CITIC Securities Australian operation between 2009 and 2013 with special focus on cross border transactions between Australia and China and continues to represent the Chinese investment bank in Australia as its business partner. He was born and educated in Beijing before continuing his education in the USA. He holds a Bachelor of Arts Degree in Business Administration.

Mr Su has lived and worked in China, Hong Kong, Singapore and Australia and now resides in Sydney. He has held senior positions in a Chinese government controlled Investment Company, has been the managing director of a Singapore based venture group and was an Independent director of Macquarie Bank's China property fund.

Other current public company directorships:

- Oriental Technologies Investment Limited. (ASX:OTI)
- Carbon Energy Limited (ASX:CNX)

Robert Whitton

Executive Director

Company Secretary

Appointed 3 August 2012

Robert has a longstanding and successful career as a Chartered Accountant and Business Advisor. A specialist in business reconstruction services, Robert is a Fellow of the Institute of Chartered Accountants and a Fellow of the Institute of Company Directors. Robert has in excess of 30 years' experience gained across a range of accountancy firms, most recently as a Director of William Buck, Chartered Accountants & Advisors in Sydney, Australia. Robert is a Certified Fraud Examiner. He also is an Associate Fellow of the Australian Institute of Management and a member of Australian Restructuring Insolvency & Turnaround Association.

He acted as Chief Financial Officer from 1 March 2015 to 31 July 2016, as Managing Director ANZ between 1 August 2016 and 1 February 2017 and as Company Secretary since 31 July 2014.

Other current public company directorships: Reffind Ltd (ASX:RFN)

Ronald Langley

Non-Executive Director

Appointed 28 April 2015

Ron is an Australian with extensive experience in building and running businesses globally. He spent 25 years in the United States, initially heading the former Brierley Investments Ltd's international subsidiary in North America. He is an experienced senior executive, investor, Company Director, and Chairman with a background in corporate acquisitions and business building.

He is a past director of Guinness Peat Group plc, Jungfraubahn Holding AG and Redflex Holdings Limited, and has held directorships in Vidler Water Company, Citation Insurance and Nevada Land and Resource Company to name a few. He has been an international investor for the past 33 years and has built 2 substantial businesses in the USA, Ron returned to Sydney in 2009 and manages a personal investment fund, which includes both listed and unlisted companies. Ron holds a BCom (Hons) degree from The University of NSW.

Other current public company directorships: Mercantile Investment Company Ltd (ASX:MVT)

Gerard Eakin

Non-Executive Director

Appointed 4 March 2016

Mr Eakin has had a 30 year-plus career in Australian equities in both portfolio management and equity research. His focus has been identifying and supporting young companies with superior potential. He is the founder of Manifest Capital Management and manages Australian equity portfolios for a select group of high net worth investors.

Previously, he was the Head of Australian Equities at Rothschild Australia Asset Management managing funds of approximately \$3 billion and the Head of Smaller Companies Research at JP Morgan/Ord Minnett and Merrill Lynch.

Other current public company directorships Nil.

Dr Geoffrey Raby MAICD
Non-Executive Director
Appointed 31 July 2014
Ceased 13 May 2016

Dr Raby was the Australian Ambassador to China from February 2007 to August 2011 and Deputy Secretary of the Department of Foreign Affairs and Trade from November 2002 to November 2006. He is a former Australian Ambassador to the World Trade Organisation and also to APEC (Asia Pacific Economic Co-operation).

Dr. Raby lives in Beijing, China. As well as being CEO of Geoff Raby & Associates, a Beijing-based business advisory firm. Dr. Raby has BEc (Hons) MEd and PhD degrees from La Trobe University Melbourne.

Dr Raby did not offer himself for re-election at the 2015 Annual general meeting held on 13 May 2016.

11. Meetings of Directors

During the period under review, 5 formal board meetings of directors were held. During the period the full Board dealt with all relevant matters and no separate meetings of either the Remuneration or Audit Committees of the Board were held. Attendances by each director during the period were:

| | Board Meetings | |
|-----------------------|---------------------------|-----------------|
| | Number eligible to attend | Number Attended |
| <i>John Houston</i> | 5 | 5 |
| <i>Robert Whitton</i> | 5 | 5 |
| <i>Geoffrey Raby</i> | 2 | 1 |
| <i>George Su</i> | 5 | 5 |
| <i>Gerard Eakin</i> | 4 | 4 |
| <i>Ronald Langley</i> | 5 | 5 |

12. Remuneration Report (Audited)

This section presents the nature and amount of remuneration for each director of the Company, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of the Company has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and a variable (at risk) component. The Board of the Company believes the remuneration policy is appropriate for the current stage of development of the Company.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Entity is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Board. All executives receive an agreed mix of fixed salary (which is based on factors such as experience and level of responsibilities), superannuation, fringe benefits and an annual cash performance incentive. The Company's Remuneration Committee will review and make recommendations to the Board in respect of executive packages on an annual basis. Reference will be made to the Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.
- The performance of executives is measured against criteria agreed annually with each executive. Performance criteria include factors relating to the responsibilities of each position as well as company-wide factors such as the forecast growth of the Entity's profits. All bonuses are linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and can recommend changes to the committee's recommendations. The policy is designed to attract the highest caliber of executives and reward them for performance that results in long-term growth in shareholder wealth.
- The executive directors and executives receive a superannuation guarantee contribution required by the government and do not receive any other retirement benefits.
- All remuneration paid to directors and executives is valued at the cost to the Company and expensed. There are no share or options schemes as part of directors' or executive remuneration.
- The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability.
- The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.
- Where non-executive directors provide additional services to the Company, this must be approved in advance by the remuneration committee chair.

Performance Based Remuneration

As part of each executive director and executive's remuneration package there is a performance-based component, which is paid on achievement of key performance indicators ("KPIs"). The program seeks to align goals of directors and executives with that of the Company and its shareholders. The KPIs are reviewed annually by the Board in consultation with executives.

The measures are tailored to the areas each executive has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

There were no KPIs set for the period under review being the twelve months ended 31 December 2016 and as a result no performance payments were paid or are payable.

Details of Remuneration for the Period Ended 31 December 2016

The remuneration for each key management personnel is set out in the tables below.

| | Short-term Benefits | | Post Employment Benefits | Equity-based payments | Total |
|-------------------------------------------------------|----------------------|-----------------------|--------------------------|-----------------------|------------------|
| | Fees or Remuneration | Non-Monetary Benefits | Super-annuation | Shares | |
| 12 months to 31 December 2016 | \$ | \$ | \$ | \$ | \$ |
| John Houston (Executive Chairman) | 403,089 | 36,000 | - | 40,000 | 479,089 |
| Jens Michel (Chief Executive Officer) ¹ | 478,214 | - | - | 279,408 | 757,622 |
| Robert Whitton (Managing Director - ANZ) ² | 300,000 | - | - | 40,000 | 340,000 |
| Geoffrey Raby (Non- Executive Director) ³ | 17,842 | - | - | 63,000 | 80,842 |
| George (Su) Su (Non-Executive Director) | 40,000 | - | - | 40,000 | 80,000 |
| Ronald Langley (Non-Executive Director) | 40,000 | - | - | 20,000 | 60,000 |
| Gerard Eakin (Non-Executive Director) ⁴ | 251,667 | - | - | 60,931 | 312,598 |
| Gregory O'Shea (Chief Operating Officer) ⁵ | 213,126 | - | - | - | 213,126 |
| Jason York (Chief Financial Officer) ⁶ | 126,622 | - | 12,018 | - | 138,640 |
| | <u>1,870,560</u> | <u>36,000</u> | <u>12,018</u> | <u>543,339</u> | <u>2,461,917</u> |

Notes:

1. CEO from 1 March 2016, previously Chief Operating Officer
2. CFO until 1 August 2016 subsequently Managing Director – ANZ
3. Ceased 13 May 2016
4. Appointed 4 March 2016
5. COO from 1 March 2016
6. CFO from 1 August 2016

| | Short-term Benefits | | Post Employment Benefits | Equity-based payments | Total |
|------------------------------------------|----------------------|-----------------------|--------------------------|-----------------------|---------|
| | Fees or Remuneration | Non-Monetary Benefits | Super-annuation | Shares | |
| 12 months to 31 December 2015 | \$ | \$ | \$ | \$ | \$ |
| John Houston (Executive Chairman) | 414,300 | 36,000 | - | - | 450,300 |
| Jens Michel (Chief Executive Officer) | 406,275 | - | - | 140,499 | 546,774 |
| Robert Whitton (Chief Financial Officer) | 278,332 | - | - | - | 278,332 |
| Geoffrey Raby | 53,525 | - | - | - | 53,525 |
| George (Su) Su | 40,000 | - | - | - | 40,000 |
| Ronald Langley | 26,667 | - | - | - | 26,667 |
| Richard Raju (Chief Marketing Officer) | 34,803 | - | - | 140,000 | 174,803 |

| | | | | | |
|-----------------------------------------|------------------|---------------|---|----------|------------------|
| Tim Merchant (Chief Technology Officer) | 137,118 | - | - | - | 137,118 |
| Ralph Davis (President – YPB Solutions) | 78,913 | - | - | - | 78,913 |
| | <u>1,469,933</u> | <u>36,000</u> | | <u>-</u> | <u>1,786,432</u> |

Additional disclosures relating to key management personnel

Shareholdings

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals / Other | Balance at the end of the year |
|---------------------------|-----------------------------------------|-----------------------------------------|------------------|--------------------------|---------------------------------------|
| <i>Group KMP</i> | | | | | |
| John Houston (Exe Chair) | 60,368,519 | 127,273 | - | - | 60,495,792 |
| Robert Whitton (MD - ANZ) | 225,000 | 127,273 | - | - | 352,273 |
| Geoffrey Raby (NED) | 250,000 | 200,000 | - | - | 450,000 |
| George (Su) Su (NED) | 5,496,716 | 127,273 | - | - | 5,623,989 |
| Ronald Langley (NED) | 3,333,333 | 66,667 | - | - | 3,400,000 |
| Jens Michel (CEO) | 401,283 | 1,000,000 | 4,400 | - | 1,405,683 |
| Gerard Eakin (NED) | - | - | - | - | - |
| Gregory O'Shea (COO) | - | - | - | - | - |
| Jason York (CFO) | - | - | - | - | - |
| | <u>70,074,851</u> | <u>1,648,486</u> | <u>4,400</u> | <u>-</u> | <u>71,727,737</u> |

The number of options in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals / Other | Balance at the end of the year |
|----------------------------|-----------------------------------------|-----------------------------------------|------------------|--------------------------|---------------------------------------|
| <i>Group KMP</i> | | | | | |
| John Houston (Exe Chair) | 15,089,413 | - | - | - | 15,089,413 |
| Robert Whitton (MD – ANZ)) | 56,250 | - | - | - | 56,250 |
| Geoffrey Raby (NED) | 62,500 | - | - | - | 62,500 |
| George (Su) Su (NED) | 1,374,179 | - | - | - | 1,374,179 |
| Ronald Langley (NED) | 3,333,333 | - | - | - | 3,333,333 |
| Jens Michel (CEO) | - | 3,000,000 | - | - | 3,000,000 |
| Gerard Eakin (NED) | - | 1,000,000 | - | - | 1,000,000 |
| Gregory O'Shea (COO) | - | - | - | - | - |
| Jason York (CFO) | - | - | - | - | - |
| | <u>19,915,675</u> | <u>4,000,000</u> | <u>-</u> | <u>-</u> | <u>23,915,675</u> |

Other Equity-related KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above relating to options, rights and shareholdings.

Employment Contracts of Directors and Senior Executives.

The terms of employment for all directors and senior executives are formalised in contracts of employment. The key terms of the contracts with Directors and specified executives except the Executive Chairman are:

- none of the contracts have fixed terms
- resignation period or termination by the Group is between one and six months' notice
- termination or redundancy payments by the Group are not specifically provided for in the contracts, however, will be payable in accordance with relevant Federal or State legislation, and

The services of the Executive Chairman are provided pursuant to a Contract with a Service Company:

- The contract has a term of 36 months from the date of the completion of the Share Sale and Purchase Agreement
- Resignation period or termination by the Group is twelve months' notice.
- Termination or redundancy payments by the Group are not specifically provided for in the contracts, however, will be payable in accordance with the relevant Federal or state legislation; and
- No termination payments are payable in respect of resignation or dismissal for serious misconduct. In the instance of serious misconduct the Group can terminate employment at any time.

12. Indemnification of Directors, Officers and Auditor

Pursuant to Article 103 of its Constitution, the Company insures and indemnifies its current and former directors and officers, against liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers of the Company and its controlled entities, except where the liability arises out of conduct involving lack of good faith.

Each Director and Secretary named in the Directors and Secretary section of this report and any past director or secretary, has entered into a Deed of Indemnity with the Company on these terms. No indemnity has been provided to the Company's auditor.

13. Insurance Premiums

The Company has paid an insurance premium in respect of a contract insuring against liability of Directors and Officers in accordance with the Company's Constitution and the Corporations Act 2001.

The contract of insurance prohibits disclosure of the amount of the premium and the nature of the liability insured against. The Company has paid the insurance premium in respect of cover which may apply in relation to liabilities of the type referred to in Section 199B of the Corporations Act 2001.

14. Non-audit Services

The Board is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

— the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

15. Auditor's Independence Declaration

The auditor's independence declaration for the period ended 31 December 2016 will be included on page 56 of this Annual Report.

16. Proceedings on Behalf of Company

Other than as set out below, no person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

17. Rounding of Amounts

The parent entity has applied the relief available to it under *ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191*. Accordingly, amounts in the financial statements have been rounded off to the nearest \$1,000.

18. Total Options on Issue

At the date of this report, there are 112,231,884 options over unissued shares in YPB Group Ltd as set out below:

| Number | Exercise Price | Expiry Date |
|------------------------|----------------|------------------|
| 750,000 | \$0.20 | 31 October 2017 |
| 2,130,546 | \$0.20 | 31 October 2017 |
| 10,000,000 | \$0.20 | 31 October 2017 |
| 4,453,301 | \$0.20 | 31 October 2017 |
| 22,777,119 | \$0.20 | 31 October 2017 |
| 3,000,000 | \$0.50 | 28 February 2019 |
| 3,000,000 ² | \$0.75 | 28 February 2019 |
| 1,000,000 ³ | \$0.50 | 4 March 2020 |
| 200,000 | \$0.50 | 1 August 2018 |
| 200,000 | \$0.35 | 1 August 2018 |
| 280,000 | \$0.50 | 27 October 2018 |
| 280,000 | \$0.35 | 27 October 2018 |
| 114,000 | \$0.50 | 27 April 2018 |
| 114,000 | \$0.75 | 27 April 2018 |
| 16,000,000 | \$0.35 | 12 December 2026 |
| 16,000,000 | \$0.45 | 12 December 2026 |
| 16,000,000 | \$0.55 | 12 December 2026 |
| 16,000,000 | \$0.65 | 12 December 2026 |
| (67,082) ¹ | | |
| 112,231,884 | | |

- Options that have been exercised.
- Issued to Jens Michel on 6 June 2016.
- Issued to Gerard Eakin on 6 June 2016.

Signed in accordance with a resolution of the Board of Directors

A handwritten signature in black ink, appearing to be 'John Houston', with a large loop on the left side and a horizontal line extending to the right.

John Houston
Executive Chairman

Dated this 28th day of March 2017

**YPB GROUP LIMITED
ABN 68 108 649 421
AND CONTROLLED ENTITIES**

SYDNEY
Level 40
2 Park Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

Ph: [612] 9263 2600
Fx : [612] 9263 2800

**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 year ended 31 December 2016 there have been no contraventions of:

- (i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Hall Chadwick

HALL CHADWICK
LEVEL 40, 2 PARK STREET
SYDNEY NSW 2000

G Webb

GRAHAM WEBB
Partner
Dated: 28 March 2017

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Accounting Firms

 **PrimeGlobal**

Financial Statements
31 December 2016

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

| | | Consolidated | |
|-----------------------------------------------------------------------------------------------|-------------|-------------------------|-------------------------|
| | Note | 31 December 2016 | 31 December 2015 |
| | | \$'000 | \$'000 |
| Revenue | 3 | 2,982 | 1,714 |
| Expenses | | | |
| 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 of goodwill and other intangible assets | | (3,267) | - |
| Diminution in fair value of financial assets | | (1,060) | - |
| Loss before income tax benefit | 4 | (16,612) | (6,762) |
| Income tax benefit | 5 | 171 | - |
| Loss after income tax benefit for the year attributable to the owners of YPB Group Ltd | | (16,441) | (6,762) |
| Other comprehensive income | | | |
| <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 |
| Total comprehensive loss for the year attributable to the owners of YPB Group Ltd | | (16,666) | (6,031) |
| | | Cents | Cents |
| Basic earnings per share | 26 | (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
Consolidated statement of financial position
As at 31 December 2016

| | | Consolidated | |
|--------------------------------------|------|----------------|----------------|
| | | 31 December | 31 December |
| | Note | 2016 \$'000 | 2015 \$'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 2,715 | 2,877 |
| Trade and other receivables | 7 | 729 | 1,221 |
| Inventories | 8 | 348 | 179 |
| Financial assets | 9 | 2,250 | 3,347 |
| Total current assets | | <u>6,042</u> | <u>7,624</u> |
| Non-current assets | | | |
| Plant and equipment | 10 | 588 | 313 |
| Intangibles | 11 | 12,081 | 16,176 |
| Financial assets | 9 | - | 1,653 |
| Total non-current assets | | <u>12,669</u> | <u>18,142</u> |
| Total assets | | <u>18,711</u> | <u>25,766</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 12 | 2,177 | 1,418 |
| Total current liabilities | | <u>2,177</u> | <u>1,418</u> |
| Non-current liabilities | | | |
| Borrowings | 13 | 3,024 | 3,104 |
| Other liabilities | | 1 | - |
| Total non-current liabilities | | <u>3,025</u> | <u>3,104</u> |
| Total liabilities | | <u>5,202</u> | <u>4,522</u> |
| Net assets | | <u>13,509</u> | <u>21,244</u> |
| Equity | | | |
| Issued capital | 14 | 41,317 | 33,606 |
| Reserves | 15 | 4,051 | 3,056 |
| Accumulated losses | | (31,859) | (15,418) |
| Total equity | | <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
Consolidated statement of changes in equity
For the year ended 31 December 2016

| Consolidated | Issued capital \$'000 | Issued options \$'000 | Foreign currency translation Reserve \$'000 | Accumulated losses \$'000 | Share based payment reserve \$'000 | Total equity \$'000 |
|--------------------------------------------------------------|----------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------|-----------------------------------------------|--------------------------------|
| 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> |

| Consolidated | Issued capital \$'000 | Issued options \$'000 | Foreign currency translation reserve \$'000 | Accumulated losses \$'000 | Share based payment reserve \$'000 | Total equity \$'000 |
|--------------------------------------------------------------|----------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------|-----------------------------------------------|--------------------------------|
| 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 | 7,449 | - | - | - | - | 7,449 |
| Options exercised during the year | 2 | - | - | - | - | 2 |
| Shares granted from consulting agreement | 260 | - | - | - | - | 260 |
| Options granted during the year | - | 302 | - | - | - | 302 |
| Share based payments | - | - | - | - | 918 | 918 |
| Balance at 31 December 2016 | <u>41,317</u> | <u>695</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
Consolidated statement of cash flows
For the year ended 31 December 2016

| | Note | Consolidated | |
|------------------------------------------------------------------|------|----------------------------|----------------------------|
| | | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers | | 3,262 | 828 |
| Payments to suppliers and employees | | (12,755) | (6,595) |
| Interest received | | 37 | 77 |
| Finance costs | | (198) | (1) |
| Net cash used in operating activities | 25 | (9,654) | (5,691) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (353) | (299) |
| Payments for acquisitions of subsidiaries (net of cash acquired) | 22 | - | (423) |
| Proceeds from disposal of intangibles | | - | (39) |
| Net cash used in investing activities | | (353) | (761) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares (net of costs) | | 8,214 | 6,752 |
| Proceeds from issue of options | | - | 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) | - |
| 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 | | 2,877 | 2,405 |
| Cash and cash equivalents at the end of the financial year | 6 | 2,715 | 2,877 |

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

Note 1. Significant accounting policies

These consolidated financial statements and notes represent those of YPB Group Limited and Controlled Entities (the "consolidated entity" or "group"). The company is a listed public company, incorporated and domiciled in Australia.

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 financial statements were authorised for issue on 28th March 2017 by the directors of the company.

Basis of preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going concern

The Group incurred an operating loss after income tax of \$16,441,000 and had a deficiency of operating cash flows of \$9,654,000 for the year ending 31 December 2016. As at year end the Group has cash and cash equivalents of \$2,715,000.

The financial statements have been prepared on a going concern basis as the group's cash flow forecast indicates that after meeting all its commitments the group will be cash flow positive for at least the next 12 months from the date of this report. While preparing the cash flow forecasts Directors noted the following:

- Confidence in achieving forecasted sales growth - the size of the opportunity pipeline (\$112m) is well ahead of the revenues necessary to achieve the company's profit expectations;
- The Group has activated a cost reduction program that is expected to reduce its operational cost base by approximately 40%, estimated to amount to an annualised \$4.5m in comparison to previous years;
- The Directors expect the take-up of expiring share options to generate approximately \$7.2m during the period up to 31 October 2017;
- The Directors have also re-confirmed the sub-ordination of non-current loans amounting to \$3.02m, not to be repaid before 1 January 2018.

On this basis, the Directors are of the opinion that the financial statements can be prepared on a going concern basis and the Group will be able to pay for its debts as and when they fall due and payable.

Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent YPB Group Limited and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 23.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Note 1. Significant accounting policies (continued)

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

The consolidated financial statements have been prepared using reverse acquisition accounting. In reverse acquisition accounting, the cost of the business combination is deemed to have been incurred by the legal subsidiary YPB Limited (HK) (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent, YPB Group Limited (formerly AUV Enterprises Limited) (the acquiree for accounting purposes).

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- the consideration transferred;
- any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value remeasurements in any pre-existing equity holdings are recognised in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group’s cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Note 1. Significant accounting policies (continued)

Income Tax

The income tax expense/(income) for the period comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the period as well as unused tax losses.

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax consolidation

The Company and its wholly owned subsidiaries have formed a tax-consolidated group with effect from 6 April 2004 and are therefore taxed as a single entity from that date. The head entity of the tax-consolidated group is YPB Group Limited. YPB Group Limited is responsible for recognising the current and deferred tax assets and liabilities for the consolidated group. The tax-consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the taxable profit of the tax-consolidated group.

Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

Note 1. Significant accounting policies (continued)

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads.

Plant and equipment

Plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| | |
|---------------------|-----------|
| Plant and equipment | 10% - 25% |
|---------------------|-----------|

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Note 1. Significant accounting policies (continued)

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Financial assets

Financial assets representing share receivable instruments ('Lanstead') are initially recognised at cost on the date the contract is entered into and are subsequently remeasured to their fair value at each reporting date with reference to the price differential between the actual trading share price of the company at settlement and the contractually agreed reference share price.

Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

Note 1. Significant accounting policies (continued)

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

Intangibles Other than Goodwill

Intellectual property

Intellectual property is recognised at cost of acquisition. Intellectual property has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. Intellectual property is amortised over a period of 5 - 20 years.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Customer relationships

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Note 1. Significant accounting policies (continued)

Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

Employee Benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Equity-settled compensation

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Note 1. Significant accounting policies (continued)

Revenue and Other Income

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Interest revenue is recognised using the effective interest method.

All revenue is stated net of the amount of goods and services tax.

Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

Rounding of Amounts

The parent entity has applied the relief available to it under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Accordingly, amounts in the financial statements have been rounded off to the nearest \$1,000.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Note 1. Significant accounting policies (continued)

Key estimates

Intellectual property and customer relationships

The Group assesses the carrying value of intellectual property at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. The Directors have assessed the carrying value of intellectual property at 31 December 2016 and determined that no impairment is required.

Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill is impaired. In accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. The goodwill has been determined to be impaired at 31 December 2016.

Financial assets ('Lanstead')

In accordance with the accounting policy stated in Note 1, the Group tracks the price differential between the actual trading share price and the contractually agreed reference share price to determine the fair value of the financial asset at the reporting date. Any fair value loss is recognised as a diminution in fair value of financial assets.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's

Note 1. Significant accounting policies (continued)

performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Group.

Note 2. 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.

YPB Group Ltd
Notes to the financial statements
31 December 2016

Note 2. Operating segments (continued)

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

| Consolidated - 31 December 2015 | Print Solutions \$'000 | Other segments \$'000 | Total \$'000 |
|------------------------------------------------|------------------------------|-----------------------------|-----------------|
| Revenue | | | |
| Sales to external customers | 744 | 893 | 1,637 |
| Interest revenue | 3 | 74 | 77 |
| Total revenue | <u>747</u> | <u>967</u> | <u>1,714</u> |
| EBITDA | | | |
| Depreciation and amortisation | 310 | (6,170) | (5,860) |
| | - | (902) | (902) |
| Profit/(loss) before income tax expense | <u>310</u> | <u>(7,072)</u> | <u>(6,762)</u> |
| Income tax expense | | | - |
| Loss after income tax expense | | | <u>(6,762)</u> |
| Assets | | | |
| Segment assets | 491 | 25,275 | 25,766 |
| Total assets | | | <u>25,766</u> |
| Liabilities | | | |
| Segment liabilities | 370 | 4,152 | 4,522 |
| Total liabilities | | | <u>4,522</u> |

Note 2. Operating segments (continued)

Geographical information

| | Sales to external customers | | Geographical assets | |
|-----------------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|
| | 31 December 2016 \$'000 | 31 December 2015 \$'000 | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
| Australia | 1,271 | 74 | 6,220 | 10,883 |
| Peoples Republic of China and HK | 299 | 379 | 11,162 | 13,658 |
| Thailand | 331 | 489 | 772 | 700 |
| United States of America & Mexico | 1,081 | 772 | 557 | 525 |
| | <u>2,982</u> | <u>1,714</u> | <u>18,711</u> | <u>25,766</u> |

Note 3. Revenue

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

Note 4. Loss for the period

The loss for the period includes the following expenses:

| | Consolidated | |
|-------------------------------------------------------------|----------------------------|----------------------------|
| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
| 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 | <u>1,060</u> | <u>-</u> |
| | <u>7,474</u> | <u>2,783</u> |

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Note 5. Income tax

| | Consolidated | |
|--------------------------------------------------------------------------------------|---------------------|--------------------|
| | 31 December | 31 December |
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| <i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i> | | |
| Loss before income tax | (16,612) | (6,762) |
| Tax at the statutory tax rate of 30% | (4,984) | (2,029) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| - offshore expenses not deductible | 294 | 1,093 |
| - non-allowable expenses | 1,510 | 33 |
| - share options expensed during the year | 61 | - |
| - share-based payments expensed during the year | 155 | 85 |
| - tax losses not recognised | 2,379 | 649 |
| | (584) | (169) |
| Difference in overseas tax rates | 408 | 107 |
| - timing differences not recognised | 5 | 62 |
| Income tax benefit | (171) | - |
| Deferred tax assets have not been recognised in respect of the following items: | | |
| - deductible temporary differences | 150 | 155 |
| - tax losses | 2,994 | 615 |
| | 3,144 | 770 |

Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the group can utilise the benefits therefrom.

Note 6. Current assets - cash and cash equivalents

| | Consolidated | |
|--------------|---------------------|--------------------|
| | 31 December | 31 December |
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Cash on hand | 4 | 10 |
| Cash at bank | 2,711 | 2,867 |
| | 2,715 | 2,877 |

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Note 7. Current assets - trade and other receivables

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

Note 8. Current assets - inventories

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

Note 9. Financial assets

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

| | Share price | Number of shares outstanding | Fair value |
|--------------------------------------------------------------------|--------------------|-------------------------------------|-------------------|
| | \$ | | \$ |
| Value recognised on inception | 0.26 | 19,231 | 5,000 |
| Consideration received up to 31 December 2016 | | (10,150) | (1,690) |
| Gain/(loss) on diminution in fair value of the Lanstead receivable | | <u>-</u> | <u>(1,060)</u> |
| Value of the Lanstead receivable at 31 December 2016 | | <u>9,081</u> | <u>2,250</u> |

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Note 9. 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 agreed reference share price agreed on at the time of the underlying contract.

Note 10. Non-current assets - plant and equipment

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

Reconciliations

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

| Consolidated | Plant and equipment \$'000 | Total \$'000 |
|---------------------------------------------------|----------------------------------|-----------------|
| Balance at 1 January 2015 | 26 | 26 |
| Additions | 299 | 299 |
| Additions through business combinations (note 22) | 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>588</u> | <u>588</u> |

Note 11. Non-current assets - intangibles

| | Consolidated | |
|-------------------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$'000 | \$'000 |
| 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>12,081</u> | <u>16,176</u> |

Reconciliations

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

| Consolidated | Goodwill \$'000 | Intellectual property \$'000 | Customer relationships \$'000 | Total \$'000 |
|---------------------------------------------------|--------------------|------------------------------------|-------------------------------------|-----------------|
| Balance at 1 January 2015 | - | 11,096 | - | 11,096 |
| Additions through business combinations (note 22) | 3,052 | 1,344 | 198 | 4,594 |
| Exchange differences | 32 | 1,294 | 7 | 1,333 |
| Amortisation expense | - | (833) | (14) | (847) |
| Balance at 31 December 2015 | 3,084 | 12,901 | 191 | 16,176 |
| Exchange differences | 5 | 70 | 1 | 76 |
| Impairment charge | (3,089) | - | (178) | (3,267) |
| Amortisation expense | - | (890) | (14) | (904) |
| Balance at 31 December 2016 | <u>-</u> | <u>12,081</u> | <u>-</u> | <u>12,081</u> |

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 22. 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.

Note 11. Non-current assets - intangibles (continued)

- b) In reviewing the Group's intangible asset position at year-end, the directors considered the impact of continuous post-acquisition development needs as well as the increase in goodwill arising from the measurement period adjustments outlined above.

As a result, the directors formed the view that the initial premium paid in acquiring the respective business units, was no longer justified in terms of the delays and additional costs incurred and consequently raised an impairment charge against all goodwill arising from the 2015 business combinations.

- c) In determining the recoverable amounts of the remaining identifiable intangibles, as at 31 December 2016, the directors have applied the 'value in use' methodology.

The 'value in use' modelling has been determined for each cash-generating unit, as defined, and as at 31 December 2016, the annual impairment test was based on the approved 2017 annual operating plan ('AOP') and the accompanying five-year outlook. As a result of the impairment testing, it was identified that the intangible assets associated with the print solutions business unit, representing customer relationships, was impaired.

The key assumptions and results arising from the value in use methodology, based on the approved annual operating plan, relating to the unimpaired YPB business unit, include:

- Revenue growth from conversion of sales pipelines of \$23m for FY2017 and nil growth thereafter;
 - Discounted cash flow modelling based on remaining life of intellectual property of 15 years with no terminal value;
 - Mid-point WACC of 17.6% assuming a long-term debt/equity ratio of 18 / 82;
 - EBITDA of \$5m.
- d) The sensitivity analysis conducted by the directors is based on a 10% variation around the budgeted FY2017 revenue of \$25.989m. The impact of this analysis suggests a ±\$0.8m variances on the calculated mid-point headroom of \$7.8m.

Note 12. Current liabilities - trade and other payables

| | Consolidated | |
|------------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$'000 | \$'000 |
| Trade payables | 1,202 | 1,057 |
| Sundry payables and accruals | 975 | 361 |
| | 2,177 | 1,418 |

Refer to note 16 for further information on financial instruments.

Note 13. Non-current liabilities - borrowings

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

Refer to note 16 for further information on financial instruments.

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 14. Equity - issued capital

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

Movements in ordinary share capital

| Details | Date | Shares | \$'000 |
|------------------------------------------------------|------------------|-------------|--------|
| 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 |

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Note 14. Equity - issued capital (continued)

Movements in ordinary share capital (continued)

| | | | |
|------------------------------------------------------|------------------|--------------------|---------------|
| 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 | - |
| Conversion of performance rights | 8 August 2016 | 3,488,000 | - |
| Share placement | 26 October 2016 | 16,000,000 | 4,000 |
| 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>41,317</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 |
|-----------------------------------------------------|------------------|--------------------|------------|
| 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 | - |
| Balance | 31 December 2016 | <u>112,231,884</u> | <u>695</u> |

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Note 14. Equity - issued capital (continued)

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 (yrs) | 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 4 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 | 64,000,000 options were issued as part of the capital raising of 16,000,000 shares on 27 October 2016. |

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:

| | Note | Consolidated | |
|--------------------------------|-------------|---------------------|--------------------|
| | | 31 December | 31 December |
| | | 2015 | 2015 |
| | | \$ | \$ |
| Total borrowings | 13 | 3,024 | 3,104 |
| Less cash and cash equivalents | 6 | (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 15. Equity - reserves

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$'000 | \$'000 |
| Foreign currency reserve | 2,341 | 2,566 |
| Options reserve | 695 | 393 |
| Share-based payments reserve | 1,015 | 97 |
| | <u>4,051</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.

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Movements in share based payments

| Details | Date | \$'000 |
|-----------------------------------|------------------|---------------|
| Balance | 1 January 2015 | 97 |
| Balance | 31 December 2015 | 97 |
| Performance rights granted | 13 May 2016 | 203 |
| Issued under share-based payments | 8 August 2016 | 36 |
| Performance rights granted | 8 August 2016 | 627 |
| Issued under share-based payments | 27 October 2017 | 52 |
| Balance | 31 December 2016 | <u>1,015</u> |

Note 16. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (relating to foreign currency risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the Renminbi, Thai Baht and US dollar may impact on the Group's financial results.

| Consolidated – 31 December 2016 | 2016 RMB \$000 | 2016 USD \$000 | 2016 THB \$000 | 2015 RMB \$000 | 2015 USD \$000 | 2015 THB \$000 |
|----------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Cash and cash equivalents | 590 | 29 | 1,750 | 284 | 70 | 378 |
| Trade and other receivables | 459 | 114 | - | 1,659 | 366 | 9,421 |
| Trade and other payables | (937) | (109) | (636) | (553) | (344) | (1,033) |
| Borrowings | (7,441) | (1,557) | (1,302) | - | (2,261) | |

Sensitivity analysis

Based on the financial instruments held at 31 December 2016, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax profit for the period would have been \$210,000 lower/higher (2015: \$298,000 lower/higher).

Had the Australian dollar weakened/strengthened by 10% against the Renminbi with all other variable held constant, the Group's post-tax profit for the period would have been \$146,000 higher/lower (2014: \$35,000 higher/lower).

Had the Australian dollar weakened/strengthened by 10% against the Thai Baht with all other variables held constant, the Group's post-tax profit for the period would have been \$9,000 higher/lower (2014: \$33,000 higher/lower).

Note 16. Financial instruments (continued)

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operating, investing and financing activities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| | Effective Interest Rate % | 1 year or less \$'000 | Between 1 and 5 years \$'000 | Remaining contractual maturities \$'000 |
|-------------------------------------------------|-------------------------------------------|--------------------------|------------------------------------|--------------------------------------------------|
| Consolidated - 31 December 2016 | | | | |
| <i>Financial assets - cash flows realisable</i> | | | | |
| Cash and cash equivalents | 2.00% | 2,715 | - | 2,715 |
| Trade and other receivables | - | 729 | - | 729 |
| Financial assets | - | 2,250 | - | 2,250 |
| <i>Financial liabilities - due for payment</i> | | | | |
| Trade and other payables | - | (2,177) | - | (2,177) |
| Borrowings | 8.00% | - | (3,024) | (3,024) |
| | | <u>3,517</u> | <u>(3,024)</u> | <u>493</u> |
| | | | | |
| | Weighted average interest rate % | 1 year or less \$'000 | Between 1 and 5 years \$'000 | Remaining contractual maturities \$'000 |
| Consolidated - 31 December 2015 | | | | |
| <i>Financial assets - cash flows realisable</i> | | | | |
| Cash and cash equivalents | 2.00% | 2,877 | - | 2,877 |
| Trade and other receivables | - | 1,221 | - | 1,221 |
| Financial assets | - | 3,347 | 1,653 | 5,000 |
| <i>Financial liabilities - due for payment</i> | | | | |
| Trade and other payables | - | (1,418) | - | (1,418) |
| Borrowings | 8.00% | - | (3,104) | (3,104) |
| | | <u>6,027</u> | <u>(1,451)</u> | <u>4,576</u> |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 16. Financial instruments (continued)

Price risk

Price risk of the financial assets ('Lanstead receivable') relates to the fair value fluctuation arising from the actual company share price deviating from the agreed benchmark share price of \$0.35 per share.

The fair value fluctuation for every 1 cent share price variation has been set as \$8,013 less, over the average monthly instalment of \$236,111.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 17. Key management personnel disclosures

Directors

The following persons were directors of YPB Group Ltd during the financial year:

John Houston (Executive Chairman)
Robert Whitton (Company Secretary)
Geoffrey Raby
Su (George) Su
Ronald Langley
Gerard Eakin

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Jens Michael (Chief Executive Officer)
Jason York (Chief Financial Officer)
Greg O'Shea (Chief Operating Officer)

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the years ended 31 December 2016 and 2015.

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | Consolidated | |
|------------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$ | \$ |
| Short-term employee benefits | 1,918,578 | 1,505,933 |
| Post-employment benefits | 543,339 | 280,499 |
| | <u>2,461,917</u> | <u>1,786,432</u> |

Short-term employee benefits

These amounts include fees and benefits paid to executive and non-executive directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to other KMP.

Note 17. Key management personnel disclosures (continued)

Share-based payments

These amounts represent the expense related to participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the years ended 31 December 2016 and 2015.

Note 18. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by , the auditor of the Company, and unrelated firms:

| | Consolidated | |
|---------------------------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$ | \$ |
| <i>Audit services -</i> | | |
| Audit or review of the financial statements | <u>70,000</u> | <u>65,000</u> |
| <i>Component auditors</i> | | |
| - Audit or review of the financial report | <u>69,799</u> | <u>46,030</u> |

Note 19. Contingencies and commitments

Operating lease commitments

| | Consolidated | |
|---------------------------------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$'000 | \$'000 |
| Group Total | | |
| Within one year | 257 | 240 |
| Later than one year but not later than five years | <u>126</u> | <u>327</u> |
| | <u>383</u> | <u>567</u> |

The Group had no contingent liabilities as at 31 December 2016 and 2015.

Note 20. Related party transactions

Parent entity

YPB Group Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 23.

Key management personnel

Disclosures relating to key management personnel are set out in note 17 and the remuneration report included in the directors' report.

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Note 20. Related party transactions (continued)

Receivable from and payable to related parties

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

| | Consolidated | |
|----------------------------------------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$ | \$ |
| Loans from other key management personnel related entity | | |
| Beginning of the period | 3,104 | 2,748 |
| Interest charged | 198 | 196 |
| Loan acquired through business combinations (Note 22) | - | 42 |
| Loan repayment | (198) | (196) |
| Exchange differences | 80 | 314 |
| End of period | <u>3,024</u> | <u>3,104</u> |

Terms and conditions

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

Note 21. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|--------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$'000 | \$'000 |
| Loss after income tax | <u>(6,515)</u> | <u>(4,644)</u> |
| Total comprehensive loss | <u>(6,515)</u> | <u>(4,644)</u> |

YPB Group Ltd
Notes to the financial statements
31 December 2016

Note 21. Parent entity information (continued)

Statement of financial position

| | Parent | |
|------------------------------|-------------------------|-------------------------|
| | 31 December 2016 | 31 December 2015 |
| | \$'000 | \$'000 |
| Total current assets | 4,283 | 6,480 |
| Total assets | 19,652 | 17,149 |
| Total current liabilities | 1,276 | 1,167 |
| Total liabilities | 1,276 | 1,167 |
| Equity | | |
| Issued capital | 46,354 | 38,644 |
| Options reserve | 695 | 393 |
| Share-based payments reserve | 1,015 | 97 |
| Accumulated losses | (29,688) | (23,152) |
| Total equity | <u>18,376</u> | <u>15,982</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

There have been no guarantees entered into by the parent entity in relation to the debts of its subsidiaries.

Contingent liabilities

There were no contingent liabilities at 31 December 2016 and 2015 which related to the parent entity.

Contractual commitments

There were no contractual commitments at 31 December 2016 and 2015 which related to the parent entity.

Note 22. 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 14, 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.

YPB Group Ltd
Notes to the financial statements
31 December 2016

Note 22. Business combinations (continued)

Details of the acquisition are as follows:

| | Fair value \$'000 |
|--------------------------------------------------------------------|------------------------------|
| 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 | <u>641</u> |
| Representing: | |
| - Cash paid / payable | 252 |
| - Issuance of shares | 389 |
| | <hr/> |
| | <u>641</u> |
| | <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 | <u>105</u> |

Note 22. 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 14, 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:

| | Fair value \$'000 |
|--------------------------------------------------------------------|------------------------------|
| Bank overdraft | (33) |
| Trade and other receivables | 460 |
| Inventories | 32 |
| Customer relationships | 198 |
| Trade and other payables | (137) |
| Other liabilities | (42) |
| | <hr/> |
| Net assets acquired | 478 |
| Goodwill | 529 |
| | <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> |

YPB Group Ltd
Notes to the financial statements
31 December 2016

Note 22. 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:

| | Fair value \$'000 |
|--------------------------------------------------------------------|------------------------------|
| 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 23. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|--------------------------------------------|-------------------------------------------------------------------|---------------------------|-------------------------|
| | | 31 December 2016 | 31 December 2015 |
| | | % | % |
| YPB Limited (HK) | Hong Kong | 100.00% | 100.00% |
| YPB Technology (Beijing) Limited | PRC China | 100.00% | 100.00% |
| Product ID & Quality Systems (Beijing) Ltd | PRC China | 100.00% | 100.00% |
| Brand Reporter Pty Ltd | Australia | 100.00% | 100.00% |
| YPB Group (USA) Inc | USA | 100.00% | 100.00% |
| Intellectual Product Protection Inc | USA | 100.00% | 100.00% |
| YPB Print Solutions Inc | USA | 100.00% | 100.00% |
| YPB Group Co., Ltd | Thailand | 100.00% | 100.00% |
| nTouch Holdings Pty Ltd | Australia | 100.00% | 100.00% |
| nTouch Agency Pty Ltd | Australia | 100.00% | 100.00% |
| nTouch Pty Ltd | Australia | 100.00% | 100.00% |
| nTouch IP Pty Ltd | Australia | 100.00% | 100.00% |
| Wall Mall Pty Ltd | Australia | 100.00% | 100.00% |
| YPB Product Development Pty Ltd | Australia | 100.00% | 100.00% |

Note 24. Events after the reporting period

The following events have occurred since 31 December 2016:

- 9 January 2017 - YPB signs first contract with military in Mexico
- 13 January 2017 - Thai Government awards YPB board of Investment status
- 2 February 2017 - YPB confirms earnings guidance

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 25. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated | |
|---------------------------------------------------------------------------------------------------------|---------------------|--------------------|
| | 31 December | 31 December |
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Loss after income tax benefit for the year | (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 | 491 | (470) |
| (Increase) in inventories | (169) | (10) |
| Increase/(decrease) in trade and other payables | 759 | 367 |
| Net cash used in operating activities | <u>(9,654)</u> | <u>(5,691)</u> |

Note 26. Earnings per share

| | Consolidated | |
|-------------------------------------------------------------------------------------------|---------------------|--------------------|
| | 31 December | 31 December |
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Loss after income tax attributable to the owners of YPB Group Ltd | <u>(16,441)</u> | <u>(6,762)</u> |
| | Number | Number |
| 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> |
| | Cents | Cents |
| Basic earnings per share | (8.76) | (5.44) |

Due to losses of the YPB Group, diluted earnings per share have not been presented.

YPB Group Ltd
Notes to the financial statements
31 December 2016

Note 27. Company details

The registered office of the company is:

YPB Group Limited
Level 29, 66 Goulburn Street
Sydney, NSW, Australia

The principal places of business are:

Level 39
Exchange Tower
388 Sukhumvit Rd
Khlong Tan
Bangkok
Thailand 10110

Suite 14
235 Spit Road
Mosman 2088
Sydney
New South Wales
Australia

Suite 100
30012 Ivy Glenn Drive
Laguna Niguel
California 92677
USA

First floor, Unit 1, Building 3, Block B
Zhaowei Industrial Zone No.14
Jiuxianqiao Road, Chaoyang District
Beijing 100015
China

YPB Group Ltd
Directors' declaration
31 December 2016

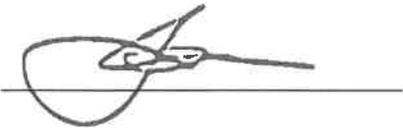
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



28 March 2017

YPB GROUP LIMITED
ABN 68 108 649 421
AND CONTROLLED ENTITIES

SYDNEY
Level 40
2 Park Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

Ph: (612) 9263 2600
Fx: (612) 9263 2800

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
YPB GROUP LIMITED AND CONTROLLED ENTITIES

Opinion

We have audited the accompanying financial report of YPB Group Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion:

- (a) the accompanying financial report of the YPB Group Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

A Member of PrimeGlobal
An Association of Independent
Accounting Firms

 PrimeGlobal

YPB GROUP LIMITED
ABN 68 108 649 421
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
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Emphasis of Matter

We draw attention to Note 11 to the financial statements. The directors have assessed the carrying value of the group's intangible assets based on the value in use methodology, which indicates that the balance of intangible assets amounting to \$12,081K 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 opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How Our Audit Addressed the Key Audit Matter |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Recoverability of Intangible Assets (\$12,081K) <i>Refer to Note 11 Intangible Assets, and Note 1 Critical Accounting Estimates and Judgements.</i></p> <p>The recoverability of intangible assets is key audit matter as Intangible assets comprising goodwill, intellectual property and customer relationships represent nearly 65% of the Group's total assets.</p> <p>Whilst group revenue continues to increase, it is operating in a developing market, which has increased the uncertainty of forecasted cash flows and delayed the crystallisation of revenue pipelines.</p> <p>The recoverable amount of the Group's intangible assets is based on the value in use methodology, less accumulated impairment and amortisation (for finite life intangible assets). Critical to management's methodology is the significant revenue forecasted for FY2017 of \$25.989m based on the successful conversion of sales pipelines into actual revenue.</p> <p>We have applied a significant level of judgement when considering management's assessment of the carrying value.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We assessed management's determination of the Group's CGUs based on our understanding of the nature of the Group's business. We also analysed the internal reporting of the Group to assess how results were monitored and reported. • We compared the cash flow forecasts to Board approved forecasts. We also evaluated the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing to actual outcomes. • With the assistance of Hall Chadwick's valuation specialist, we challenged the Group's valuation methodologies, discount rates and growth rates. This included comparing the group's inputs to external data such as economic growth projections and interest rates. • We considered the historical accuracy of the conversion of management's sales pipeline to actual sales • We performed sensitivity analysis on the key inputs to the value in use model. • For the intangible assets where impairments had been recognised, we recalculated the |

YPB GROUP LIMITED
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AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
YPB GROUP LIMITED AND CONTROLLED ENTITIES

| Key Audit Matter | How Our Audit Addressed the Key Audit Matter |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>impairment charge by comparing the carrying amount of the assets to management's valuation.</p> <ul style="list-style-type: none"> For finite life intangible assets we recalculated the amortisation charge and compared this to the group's amortisation accounting policy. |
| <p>Carrying value of Lanstead receivable (\$2,250K) <i>Refer to Note 9 Financial Assets, credit risk; Note 16 Financial Instruments and Note 1 Critical Accounting Estimates and Judgements</i></p> | |
| <p>The Group issued 20,192,307 shares to Lanstead Capital LP (Lanstead) for a consideration of \$5,000k on 22 December 2015, which is payable by way of an initial instalment of \$750k followed by 18 monthly instalments.</p> <p>The amount of repayment over the 18 months is not a fixed amount but is contingent upon the Company's share price at the time of repayment.</p> <p>Over the year to 31 December 2016, an impairment charge of \$1,060k was recognised reflecting a diminution in the fair value of the Lanstead receivable as a result of the Group's share price trading below the agreed reference price under the Lanstead agreement.</p> <p>This is a key audit matter due to the potential variability when recoverability of a significant receivable is subject to changes in the Company's share price.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> Testing management's calculation of impairment, including the share price movements in accordance with the Lanstead agreement. Verifying instalments received during the year. Reviewing the payment history to determine if there were any other indicators of impairment. |

Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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ABN 68 108 649 421
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
YPB GROUP LIMITED AND CONTROLLED ENTITIES**

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Director's Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australia Accounting Standards and the Corporations Act 2001 and for such internal control as directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Australian Accounting Standards AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

**YPB GROUP LIMITED
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AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
YPB GROUP LIMITED AND CONTROLLED ENTITIES**

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would

**YPB GROUP LIMITED
ABN 68 108 649 421
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
YPB GROUP LIMITED AND CONTROLLED ENTITIES**

reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the remuneration report included in pages 14 to 18 of the directors' report for the year ended 31 December 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the remuneration report of YPB Group Limited for the year ended 31 December 2016 complies with s 300A of the Corporations Act 2001.

Hall Chadwick

HALL CHADWICK
LEVEL 40, 2 PARK STREET
SYDNEY NSW 2000

Adell

GRAHAM WEBB

Partner

Dated: 28 March 2017

Shareholder Information

Distribution of holders

The number of holders and amount of holdings by a range of holding sizes of the ordinary shares and options as at 21 March 2017 are detailed below.

| Holding Size | Options | |
|--------------------|----------------|--------------|
| | No. of holders | Options Held |
| 1-1,000 | 64 | 11,409 |
| 1,001 - 5,000 | 155 | 512,670 |
| 5,001 – 10,000 | 189 | 1,653,619 |
| 10,001 – 100,000 | 569 | 23,577,756 |
| 100,001 – and over | 163 | 186,132,432 |
| | 1,140 | 211,887,886 |

Number of holdings less than a marketable parcel of 143.

Substantial Shareholders

The names of substantial shareholders listed in the Company's register as at 21 March 2017 are:

| | Number of Shares Held |
|--------------------------------------------|-----------------------|
| THE BIMM CORPORATION PTY LTD <FJ FUND A/C> | 60,368,519 |
| ACK PTY LTD <MARKOFF SUPER NO 2 A/C> | 22,564,103 |

Voting Rights

The voting rights attached to each class of equity security are as follows:

- (a) *Each ordinary share holder is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.*

Listed Options:

\$0.20 options expiring 31 October 2017

| Holding Size | Options | |
|--------------------|----------------|--------------|
| | No. of holders | Options Held |
| 1-1,000 | 30 | 9,976 |
| 1,001 - 5,000 | 75 | 222,411 |
| 5,001 – 10,000 | 42 | 314,268 |
| 10,001 – 100,000 | 111 | 3,788,738 |
| 100,001 – and over | 34 | 35,708,491 |
| | 292 | 40,043,884 |

Unlisted Options:

\$0.50 options expiring 4 March 2020
 \$0.50 Tranche A options expiring 28 Feb 2019
 \$0.75 Tranche B options expiring 28 Feb 2019
 \$0.35 options expiring 1 August 2018
 \$0.35 options expiring 12 December 2026
 \$0.35 options expiring 27 Oct 2018
 \$0.45 options expiring 12 December 2026
 \$0.50 options expiring 1 August 2018
 \$0.50 options expiring 27 April 2018
 \$0.50 options expiring 27 Oct 2018
 \$0.55 options expiring 12 December 2026
 \$0.65 options expiring 12 December 2026
 \$0.75 options expiring 27 April 2018

| Holding Size | Options | |
|--------------------|----------------|-------------------|
| | No. of holders | Options Held |
| 1-1,000 | 0 | 0 |
| 1,001 - 5,000 | 0 | 0 |
| 5,001 – 10,000 | 0 | 0 |
| 10,001 – 100,000 | 0 | 0 |
| 100,001 – and over | 6 | 72,188,000 |
| | <u>6</u> | <u>72,188,000</u> |

Top 20 Ordinary Shareholders as at 21 March 2017

| | |
|---------------------------------------------------------------------------|--------------------|
| THE BIMM CORPORATION PTY LTD <FJ FUND A/C> | 60,368,519 |
| ACK PTY LTD <MARKOFF SUPER NO 2 A/C> | 22,564,103 |
| CITICORP NOMINEES PTY LIMITED | 9,649,897 |
| HIGH ALTITUDE INVESTMENTS LIMITED | 5,496,716 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP | 4,762,874 |
| PERLE VENTURES PTY LTD <877 CAP INVESTMENTS 2 A/C> | 4,750,000 |
| BNP PARIBAS NOMINEES PTY LTD <GLOBAL PRIME OMNI DRP> | 4,311,417 |
| LEGATS PTY LTD <SIMON SZEWACH FAMILY A/C> | 3,744,313 |
| MR RONALD LANGLEY & MRS RHONDA LANGLEY | 3,333,333 |
| SELBY SUPER PTY LTD <MARC SELBY SUPER FUND A/C> | 3,296,703 |
| MS DAN LIU | 3,098,092 |
| MR VICTOR JOHN PLUMMER | 3,000,000 |
| MR EVAN PHILIP CLUCAS & MS LEANNE JANE WESTON <KURANGA NURSERY SUPER A/C> | 2,820,513 |
| ISAAC BALBIN <BALBIN ASAFI A/C> | 2,564,103 |
| SILK ROAD CORPORATE FINANCE PTY LTD | 2,525,897 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 1,665,000 |
| XETERA LIMITED | 1,640,116 |
| ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C> | 1,441,469 |
| GMKD LLC | 1,250,000 |
| ONE MANAGED INVT FUNDS LTD <1 A/C> | 1,222,810 |
| | <u>143,505,875</u> |
| Balance of Register | <u>68,682,011</u> |
| TOTAL | <u>211,887,886</u> |

Top 20 Listed Option Holders as at 21 March 2017

| | |
|------------------------------------------------------------------------------|-------------------|
| THE BIMM CORPORATION PTY LTD <FJ FUND A/C> | 15,089,413 |
| MR RONALD LANGLEY & MRS RHONDA LANGLEY | 3,333,333 |
| PERLE VENTURES PTY LTD <877 CAP INVESTMENTS 2 A/C> | 2,797,500 |
| MR VICTOR JOHN PLUMMER | 2,012,500 |
| FELTRIM PASTORAL CO PTY LTD <STAUGHTON EXEC S/FUND A/C> | 1,550,000 |
| SLADE TECHNOLOGIES PTY LTD <EMBREY FAMILY SUPERFUND A/C> | 1,000,000 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP | 985,790 |
| CLEAR CHANNEL PTY LTD <CLEAR CHANNEL SUPERFUND A/C> | 828,751 |
| SHEARER-SMITH HOLDINGS PTY LTD <JASON SHEARER-SMITH FAM A/C> | 808,333 |
| MS DAN LIU | 774,523 |
| MRS SHALEAH MARSCHKE | 600,000 |
| SILK ROAD CORPORATE FINANCE PTY LTD | 599,656 |
| MR BROCK LACHLAN RODWELL | 599,500 |
| MR LEO FERDINANDO CESTER & MRS MARIA HENDRIKA CESTER <CESTER SUPER FUND A/C> | 494,860 |
| SHIPLEY NOMINEES PTY LTD | 400,000 |
| IHODS SUPER FUND PTY LTD <VAD SUPER FUND A/C> | 343,750 |
| MRS TI WAN NG | 340,419 |
| GREGORY J WOOD & ASSOCIATES PTY LTD <THE G J WOOD FAMILY A/C> | 325,000 |
| MR NEIL ATHERTON DAY & DR PAUL MELVILLE DAY <NEIL ATHERTON DAY SUPER A/C> | 297,044 |
| INVIA CUSTODIAN PTY LIMITED <GRAEME PEARSON FAMILY A/C> | 293,750 |
| | <u>33,474,122</u> |
| Balance of Register | <u>6,569,762</u> |
| TOTAL | <u>40,043,884</u> |

Top 20 Unlisted Option Holders as at 21 March 2017

| | |
|-----------------------------------------------------|-------------------|
| ACK PTY LTD <MARKOFF SUPER NO 2 A/C> | 64,000,000 |
| MR JENS MICHEL | 3,000,000 |
| TR NOMINEES PTY LTD | 3,000,000 |
| WATERBEAR HOLDINGS PTY LTD <BUNGAN HEAD FAMILY A/C> | 1,000,000 |
| MR PHILIPP HOFFMANN | 960,000 |
| MR SHELDON CRAIG BRADY | 228,000 |
| | <u>72,188,000</u> |
| Balance of Register | <u>0</u> |
| TOTAL | <u>72,188,000</u> |

On-Market Buy Back

There is currently no on-market buy back.

Corporate Directory

REGISTERED OFFICE

Level 29, 66 Goulburn Street
Sydney NSW 2060
ABN 68 108 649 421
Telephone: +612 8263 4000
Facsimile: +612 8263 4111
Website: www.ypbsystems.com

DIRECTORS

John Houston
George (Su) Su
Robert Whitton
Ronald Langley
Gerard Eakin

SHARE REGISTRY

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: 1300 737 760
Facsimile: 1300 653 459
Email: enquiries@boardroomlimited.com.au
Web site: www.boardroomlimited.com.au

COMPANY SECRETARY

Robert Whitton

AUDITORS

Hall Chadwick
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Telephone: +612 9263 2600
Facsimile: +612 9263 2800

STOCK EXCHANGE LISTING

The shares of YPB Group Ltd are listed on the Australian Stock Exchange.

ASX Code: Ordinary Shares YPB
31 October 2017 Options YPBO
Web site: www.asx.com.au