

Appendix 4D

Half-year Report

*Rule 4.2A.3
Introduced 1/1/2003*

Name of entity: Yowie Group Limited

ABN: 98 084 370 669

1. Reporting period ("current period"): Half-year ended 31 December 2019

Previous corresponding period: Half-year ended 31 December 2018

2. Results for announcement to the market

US\$'000

2.1 Revenue from ordinary activities down **17%** to **6,433**

2.2 Loss from ordinary activities
after tax attributable to members down **237%** to **(2,933)**

2.3 Net loss for the period
attributable to members down **237%** to **(2,933)**

* Loss for the period includes impairment charges of \$1.7 million. Refer to note 3(b) in the half-year financial statements for further information.

2.4 The directors recommend that no amount be paid by way of dividend. No dividend has been paid or declared since the start of the financial period.

2.5 Record date for determining entitlements to dividends: N/A

2.6 A further explanation of the above figures is contained in the "Review of Operations" included within the attached directors' report.

3. Net tangible assets

| | Current Period (cents) | Previous Corresponding Period (cents) |
|---|---------------------------|---|
| Net tangible asset backing per ordinary share | 8.12 | 12.56 |

4. Details of entities over which control has been gained or lost during the period

N/A

5. Dividends

No dividends have been paid or declared during or since the beginning of the reporting period.

6. Dividend reinvestment plans

No dividend reinvestment plans are in operation.

7. Details of associates and joint venture entities

N/A

8. Accounting standards for foreign entities

The Group applied Australian Accounting Standards to all entities in the Group including its overseas subsidiaries.

9. Auditor's review report

The accounts were subject to a review by the auditor and the review report is attached as part of the half-year report.

YOWIE GROUP LTD

ABN 98 084 370 669

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2019



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COMPANY DIRECTORY

| | |
|---|---|
| DIRECTORS: | Mr Louis Carroll (Non-Executive Chairman) Mr Mark Schuessler (Managing Director) Mr Neville Bassett (Non-Executive Director) |
| KEY MANAGEMENT: | Mr Wayne Brekke (Group Chief Financial Officer) Ms Cynthia Thayer (Group Chief Marketing Officer) |
| COMPANY SECRETARY: | Mr Neville Bassett |
| REGISTERED AND PRINCIPAL OFFICE: | Level 4 216 St Georges Terrace Perth WA 6000 Telephone: +61 8 6268 2640 |
| ABN: | 98 084 370 669 |
| COMPANY WEBSITE ADDRESS: | www.yowiegroup.com www.yovieworld.com |
| AUDITORS: | Deloitte Touche Tohmatsu Tower 2, Brookfield Place 123 St Georges Terrace Perth WA 6000 |
| SHARE REGISTRY: | Link Market Services Limited Level 12, QV1 Building 250 St Georges Terrace Perth WA 6000 Telephone: 1300 554 474 or +61 2 8280 7111 |
| ASX CODE: | YOW |

CHAIRMAN'S MESSAGE

Dear Shareholders,

The board is painfully aware of how poorly the business has been performing recently. After three years of reducing cash burn and a good first quarter this financial year, the revenue decline in the second quarter has been very disappointing.

It has primarily been caused by a major competitor investing heavily in the front end of all channels, with another new product and displacing us in a significant percentage of our shelf locations, including in our largest US customer.

In an effort to counteract this revenue loss, we have expanded our distribution footprint from 41.2 % to 42.2 % of the total market during the half year.

We are continuing to expand our distribution and to reduce expenses further. Every effort is being made to remedy the current unacceptable level of performance.

A handwritten signature in blue ink, appearing to read "L. Carroll", is shown on a light blue background.

Louis Carroll
Non-Executive Chairman

DIRECTORS' REPORT

Your Directors submit their report for Yowie Group Ltd ("Yowie or the Group") and the consolidated entity ("the Group") for the half-year ended 31 December 2019.

DIRECTORS

The names of the Group's Directors in office during the half-year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mr Louis Carroll

Mr Mark Schuessler

Mr Neville Bassett (*appointed 5 August 2019*)

Mr Glen Watts (*resigned on 5 August 2019*)

Mr Tim Kestell (*resigned on 5 July 2019*)

PRINCIPAL ACTIVITY

Yowie Group Limited is a global brand licensing Company, specialising in the development of consumer products designed to promote learning, understanding and engagement with the natural world through the adventures and exploits of six endearing Yowie characters. Educating children and adults about the environment and ecology and 'Save the Natural World' is at the heart of the Yowie proposition. Yowie Group Limited employs its company-owned intellectual property rights to supply Yowie branded chocolate confectionery product, a digital platform and Yowie branded licensed consumer products. The Group's vision for the Yowie brand is to distribute on a widening basis the Yowie product in the US (United States of America) and ANZ (Australia and New Zealand) with further international expansion.

OPERATING AND FINANCIAL REVIEW

During the half-year the Group continued to focus on building a strong sales and distribution network both in the US and ANZ markets, with some updates below.

Sales and Distribution

- Global net sales were US\$6.43 million for the half-year ended 31 December 2019, 17% lower than the previous corresponding period. The softness in sales during the period was primarily due to challenging market conditions with significant holiday competitive display activity from major confectionery companies, including a significant product launch by a major global competitor.

The slowdown in sales was also impacted by a reset on front-end novelty set by the Group's largest customer which reduced the number of shelf locations in each store.

OPERATING AND FINANCIAL REVIEW (continued)**Sales and Distribution (continued)**

- The Group continued to progress towards broadening its distribution network and growing market share, with some new customers coming on board during the period.

Shipments have begun into divisions of Ahold (#4 in Grocery category) and the #1 Dollar Store chain with over 15,000 outlets nationally. The Group also confirmed a chain-wide front-end distribution for core Yowie in Food Lion (1,000+ grocery stores in the US Southeastern) and Casey's General Stores (700+ convenience stores in the US Midwest).

A new Yowie Multipack (2 Yowies + 1 Extra Toy) will hit the back of store candy aisle in the US's largest retailer starting May.

We still have room to expand distribution, with our focus on the Grocery and Convenience channels. Distribution will continue to be a focal point for the Group's success given the extreme competitive activity in confectionary business.

- Yowie's distribution in the US is measured by ACV*. The below table outlines the movement in ACV for the past 52 weeks ending 28 December 2019.

| <i>Channel</i> | <i>ACV%</i> | | |
|-----------------|-------------|-------------|---------------|
| | <i>2019</i> | <i>2018</i> | <i>Change</i> |
| Total US + Conv | 44.6 | 43.7 | +0.9 |
| Convenience | 21.9 | 20.1 | +1.8 |
| Food/Grocery | 21.4 | 19.3 | +2.1 |
| Drug | 19.2 | 20.9 | -1.7 |
| Mass | 96.6 | 97.3 | -0.7 |

* Percentage relates to the Nielsen measurement of the numbers of stores that carry Yowie brand, indicating product availability to the consumer based on ACV (All Commodity Volume) and xAOC (eXtended All Outlets Combined: Food, Drug, Mass and Convenience)

- Both Yowie Bites and Gummies in the US are gaining traction in all channels, but more slowly than anticipated. The cost to participate with the retail trade has become expensive due to spending increases by the large manufacturers. Consumer response has been positive, however, getting the products in retail has been a challenge. The Group is adding focus to eCommerce to get to our most loyal customers directly.
- In the face of the extremely competitive US confectionary category, we will continue to be aggressive in meeting our overall strategic priorities to improve operating performance, including:
 - Continue expanding distribution in the US and Australia across all channels of trade, including eCommerce, to expand buying opportunities for consumers.
 - Develop and bring to market new items consistent with our brand mission to educate consumers about conservation and endangered species.
 - Continue to focus on fiscal discipline to become more efficient and justify trade investment to compete with our large competitors.

OPERATING AND FINANCIAL REVIEW (continued)**Corporate**

- The Group completed the return of capital of 2 cents per share with a total of A\$4.36 million (equivalent to US\$2.98 million) returned to shareholders in November 2019.
- Mr Tim Kestell resigned from his position as Non-Executive Director on 5 July 2019.
- Mr Glen Watts resigned as Non-Executive Director on 5 August 2019 and Mr Neville Bassett agreed to join the Board in an interim capacity.
- On 5 July 2019, the Group received an off-market takeover bid from Aurora Funds Management Limited ("Aurora") offering a bid price 9 cents per Yowie share. The Board considered the unsolicited approach by Aurora to be highly opportunistic. The advised bid price fundamentally undervalued Yowie's business, brand, intellectual property and significant cash balance.

Aurora had subsequently decided to not proceed with the bid.

Financial Overview

- The Group maintained a healthy Gross Margin at 48% of net sales allowing the Group to invest with retailers and marketing where appropriate.
- EBITDA loss, before share-based payments expense, for the half-year ended 31 December 2019 was US\$1.2 million compared to US\$0.75 million for the previous corresponding period.
- During the period, the Group recorded an impairment of non-current assets of US\$0.15 million to write off the book value of its intangible assets associated with old Yowie series.

In addition to this, the Group also completed impairment testing, as required under the Australian Accounting Standard, following the identification of impairment indicators. The result of this impairment testing indicated an additional impairment charge of US\$1.54 million to be recorded against the Group's non-current assets. Refer to Note 3(b) for further details on the impairment testing.

- Net loss after tax attributable to members is US\$2.93 million, compared to US\$0.87 million in the previous corresponding period. The increase in net loss was largely due to the impairment to Group's non-current assets as described above and the weaker sales performance during the period.
- As at 31 December 2019, the Group's consolidated cash position was US\$12.5 million (30 June 2019: US\$16.4 million).

OPERATING AND FINANCIAL REVIEW (continued)**Financial Overview (continued)**

- The net assets of the Group as at 31 December 2019 was US\$18.03 million, down from US\$24.05 million as at 30 June 2019. The decrease in net assets of the Group was primarily due to return of capital of US\$2.98 million that was completed in November 2019 and the impairment to the Group's non-current assets of US\$1.69 million.
- A summary of the cash flows for the Group during the period is as follows:

| Cash flows used in: | US\$ |
|---|-----------------------|
| - Operating activities | (0.64 million) |
| - Investing activities | (0.23 million) |
| - Financing activities (<i>return of capital</i>) | (2.98 million) |
| Net cash flows for the year | (3.85 million) |
| Opening cash and cash equivalents balance | 16.36 million |
| Effect of foreign exchange movements | (0.03 million) |
| Closing cash and cash equivalents balance | 12.48 million |


EVENTS SUBSEQUENT TO BALANCE DATE

Refer to Note 13 in the Notes to the Consolidated Financial Statements.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 8 of the financial report.

Signed in accordance with a resolution of the Directors.



Louis Carroll
Non-Executive Chairman

28 February 2020

The Directors
Yowie Group Limited
Level 4, 216 St Georges Terrace
Perth, WA 6000

28 February 2020

Dear Directors,

Yowie Group Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Yowie Group Limited.

As lead audit partner for the review of the financial statements of Yowie Group Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Newman
Partner
Chartered Accountants

**CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**



| | Note | Consolidated Half-Year Ended 31 Dec 2019 US\$ | Half-Year Ended 31 Dec 2018 US\$ |
|--|------|---|---|
| Sale of goods | | 6,433,241 | 7,728,395 |
| Cost of sales | | (3,334,487) | (4,148,180) |
| Gross profit | | 3,098,754 | 3,580,215 |
| Selling and distribution | | (1,918,582) | (2,191,785) |
| Marketing | | (689,432) | (397,303) |
| Administration | 3(a) | (1,824,051) | (1,655,649) |
| Other income | | 109,410 | 111,029 |
| Foreign exchange gains / (losses) | | 82,206 | 210,322 |
| Write-down of inventory | | (96,666) | (166,786) |
| Impairment of non-current assets | 3(b) | (1,686,706) | (393,404) |
| Loss before income tax | | (2,925,067) | (903,361) |
| Income tax (expense) / benefit | | (7,874) | 31,919 |
| Loss after income tax for the year | | (2,932,941) | (871,442) |
| Other comprehensive income for the year | | | |
| <i>Items that may be reclassified subsequently to profit or loss</i> | | | |
| Movement in foreign currency translation reserve | | (111,234) | (373,429) |
| Total comprehensive loss for the year net of tax attributable to members of the Company | | (3,044,175) | (1,244,871) |
| Loss per share attributable to members of the Company | | | |
| Basic loss per share (cents) | 4 | (1.35) | (0.40) |
| Diluted loss per share (cents) | 4 | (1.35) | (0.40) |

This condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION
AS AT 31 DECEMBER 2019**



| | Note | Consolidated 31 Dec 2019 US\$ | 30 Jun 2019 US\$ |
|----------------------------------|------|-------------------------------------|---------------------|
| Current Assets | | | |
| Cash and cash equivalents | | 12,484,832 | 16,360,661 |
| Trade and other receivables | 5 | 1,030,354 | 1,219,425 |
| Prepayments | 6 | 934,778 | 1,384,994 |
| Inventories | 7 | 4,552,797 | 4,193,416 |
| Current tax assets | | 52,167 | - |
| Total Current Assets | | 19,054,928 | 23,158,496 |
| Non-Current Assets | | | |
| Plant and equipment | | 1,950,178 | 3,494,835 |
| Intangible assets | | 308,828 | 752,097 |
| Total Non-Current Assets | | 2,259,006 | 4,246,932 |
| Total Assets | | 21,313,934 | 27,405,428 |
| Current Liabilities | | | |
| Trade and other payables | 8 | 3,264,400 | 3,316,682 |
| Provisions | | 18,306 | 16,023 |
| Current tax liabilities | | - | 23,239 |
| Total Current Liabilities | | 3,282,706 | 3,355,944 |
| Total Liabilities | | 3,282,706 | 3,355,944 |
| Net Assets | | 18,031,228 | 24,049,484 |
| Equity | | | |
| Issued capital | 9 | 52,747,811 | 55,703,545 |
| Reserves | | (884,068) | (754,487) |
| Accumulated losses | | (33,832,515) | (30,899,574) |
| Total Equity | | 18,031,228 | 24,049,484 |

This condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**



| | Issued capital | Share-based payment reserve | Consolidated Foreign currency translation reserve | Accumulated losses | Total |
|---|----------------|-----------------------------------|---|-----------------------|-------------|
| | US\$ | US\$ | US\$ | US\$ | US\$ |
| Balance at 1 July 2018 | 55,635,991 | 2,554,962 | (2,531,579) | (26,070,152) | 29,589,222 |
| Loss for the half-year | - | - | - | (871,442) | (871,442) |
| Other comprehensive income | | | | | |
| Foreign currency translation | - | - | (373,429) | - | (373,429) |
| Total comprehensive income/(loss) for the half-year | - | - | (373,429) | (871,442) | (1,244,871) |
| Transactions with owners recorded directly in equity | | | | | |
| Shares issued under YOW | | | | | |
| Employee Incentive Plan | 70,273 | (70,273) | - | - | - |
| Shares issue transaction costs | (2,719) | - | - | - | (2,719) |
| Share-based payments | - | (50,447) | - | - | (50,447) |
| Balance as at 31 December 2018 | 55,703,545 | 2,434,242 | (2,905,008) | (26,941,594) | 28,291,185 |
| Balance at 1 July 2019 | 55,703,545 | 2,193,024 | (2,947,511) | (30,899,574) | 24,049,484 |
| Loss for the half-year | - | - | - | (2,932,941) | (2,932,941) |
| Other comprehensive income | | | | | |
| Foreign currency translation | - | - | (111,234) | - | (111,234) |
| Total comprehensive income/(loss) for the half-year | - | - | (111,234) | (2,932,941) | (3,044,175) |
| Transactions with owners recorded directly in equity | | | | | |
| Shares issued under YOW | | | | | |
| Employee Incentive Plan | 27,498 | (27,498) | - | - | - |
| Return of capital | (2,981,926) | - | - | - | (2,981,926) |
| Shares issue transaction costs | (1,306) | - | - | - | (1,306) |
| Share-based payments | - | 9,151 | - | - | 9,151 |
| Balance as at 31 December 2019 | 52,747,811 | 2,174,677 | (3,058,745) | (33,832,515) | 18,031,228 |

This condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED STATEMENT OF CASH
FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**



| | Consolidated Half-Year Ended 31 Dec 2019 US\$ | Half-Year Ended 31 Dec 2018 US\$ |
|--|---|---|
| Cash flow from operating activities | | |
| Receipts from customers | 6,896,330 | 8,662,024 |
| Other receipts | 2,238 | 2,155 |
| Payments to suppliers and employees | (7,652,528) | (8,540,632) |
| Interest received | 114,039 | 86,312 |
| Income taxes received / (paid) | 474 | (61,739) |
| Net cash flows (used in) / provided by operating activities | (639,447) | 148,120 |
| Cash flow from investing activities | | |
| Payments for plant and equipment | (73,003) | (469,861) |
| Payments for intangible assets | (157,017) | (253,355) |
| Net cash flows used in investing activities | (230,020) | (723,216) |
| Cash flow from financing activities | | |
| Return of capital | (2,981,926) | - |
| Payment of share issue transaction costs | (1,437) | (1,472) |
| Net cash flows used in financing activities | (2,983,363) | (1,472) |
| Net change in cash and cash equivalents | (3,852,830) | (576,568) |
| Cash and cash equivalents at beginning of period | 16,360,661 | 19,466,956 |
| Effect of foreign exchange movements | (22,999) | (139,294) |
| Cash and cash equivalents at end of period | 12,484,832 | 18,751,094 |

This condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. BASIS OF PREPARATION

These condensed consolidated financial statements for the half-year reporting period ended 31 December 2019 have been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2019 and any public announcements made by Yowie Group Ltd during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period with the exception of the adoption of AASB 16 *Leases* which is discussed further below.

New and amended standards adopted by the Group

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these amendments has not resulted in any significant effect on the measurement or disclosure of the amounts reported for the current or prior periods.

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

(a) AASB 16 *Leases*

The Group has adopted AASB 16 *Leases* from 1 July 2019.

AASB 16 introduced a single, on balance sheet accounting model for lessees. As a result, the Group as a lessee, will recognise right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The changes in the Group's accounting policies are set out below:

(i) Significant accounting policy

The Group, as a lessee will assess whether a contract is, or contains, a lease under AASB 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1. BASIS OF PREPARATION (continued)

New and amended standards adopted by the Group (continued)

If the contract is assessed to be, or contains, a lease, the Group will recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

Depreciation is based on the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

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

Recognition exemption - Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases with a lease term of 12 months or less and leases for low-value assets. The Group will recognise the payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Impact on transition

There was no impact on the financial statements from the application of this new standard as at 1 July 2019 as the Group's leasing arrangements at that time were either:

- low value assets, or
- short-term contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019



2. SEGMENT REPORTING

The Group has only one reportable segment, which relates to the operations of its confectionery business, with production carried out under a contract manufacturing arrangement. The net result is presented on a consolidated basis. All non-current assets are located in one geographical location, the United States of America.

Major customer information

The revenue from major customers set out below arises from the sale of Yowie chocolate confectionery product.

| | Consolidated Half-Year Ended 31 Dec 2019 US\$ | Half-Year Ended 31 Dec 2018 US\$ |
|----------------------|--|--|
| Major customer 1 | 2,630,514 | 4,158,105 |
| % of Total Net Sales | 41% | 54% |
| Major customer 2 | 689,588 | 886,064 |
| % of Total Net Sales | 10% | 11% |

3. EXPENSES

(a) Administration

| | Consolidated Half-Year Ended 31 Dec 2019 US\$ | Half-Year Ended 31 Dec 2018 US\$ |
|---|--|--|
| Employee benefits | 627,797 | 690,917 |
| Consultancy, business development and travel | 214,871 | 196,561 |
| Legal, tax, listing, compliance and insurance | 499,509 | 414,432 |
| Share-based payment expense ¹ | 9,151 | (50,447) |
| Depreciation and amortisation | 231,899 | 127,263 |
| Other administrative expenses | 240,824 | 276,923 |
| | 1,824,051 | 1,655,649 |

¹ Share-based payment expense for the half-year ended 31 December 2018 is a credit balance due to performance rights which failed to vest due to resignation. Refer to Note 10 for further details.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**



3. EXPENSES (continued)

(b) Impairment of non-current assets

| | Consolidated | |
|----------------------------------|--|--|
| | Half-Year Ended 31 Dec 2019 US\$ | Half-Year Ended 31 Dec 2018 US\$ |
| Impairment of non-current assets | 1,686,706 | 393,404 |

31 December 2019

An impairment expense of US\$152,706 was recorded to write off the carrying value of intangible assets associated with old Yowie series.

In addition to this, the Group has also completed impairment testing, as required under the Australian Accounting Standard, following the identification of impairment indicators. The result of this impairment testing indicated an additional impairment charge of US\$1,534,000 to be recorded against the Group's non-current assets. Please refer to the details below.

Impairment testing

As at 31 December 2019, impairment indicators have been identified, including the fact that the Group's market capitalisation is less than the net assets of the Group, and the Group's financial performance for the half-year ended 31 December 2019 was below budget.

An impairment loss is recognised for the amount by which the Group's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's Value in Use (ViU) and Fair Value Less Costs of Disposal (FVLCD).

For the purpose of impairment testing as at 30 June 2019, the Group first performed an assessment of the recoverable value using a ViU model which indicated that the carrying value of the cash generating unit (CGU) exceeded its recoverable value. As a result of this the Group assessed the recoverable value of the CGU using a FVLCD approach, which resulted in a higher recoverable value. The recoverable value as calculated using the FVLCD approach was consequently used as part of the impairment testing completed as at 30 June 2019.

The Group has only one operating segment and CGU which relates to the operations of its confectionery business. The result of the FVLCD assessment indicated an impairment loss of US\$1,534,000 as at 31 December 2019, of which further information is provided below.

Given the impairment triggers identified as at 31 December 2019 as noted above, the Group has updated the FVLCD model as at 31 December 2019, taking into account year to date actual performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019



3. EXPENSES (continued)

(b) Impairment of non-current assets

The impairment loss of US\$1,534,000 reduced the carrying value of the Group's plant and equipment and intangible assets to US\$2,259,006. The impairment has been proportionately applied across the following classes of assets:

| | US\$ |
|-----------------------------------|------------------|
| Manufacturing plant and equipment | 1,324,288 |
| Intangible assets: | |
| Rights and licences | 81,059 |
| Software | 28,152 |
| Product development | 100,501 |
| Total impairment loss | 1,534,000 |

The carrying amount of intangible assets with indefinite useful lives allocated to the CGU is US\$119,370.

Assumptions – FVLCD

The key assumptions made were as follows:

- FY2020 management approved budget adjusted to reflect current year to date sales performance up to end of January 2020;
- Revenue growth rate estimates ranging between 3.6% - 10.9% per annum for FY2021 to FY2027 driven by:
 - i) Increased market penetration within the US based on external performance data as at December 2019. This data outlines that the Group's current ACV*, a statistic representative of the Group's market penetration across different distribution channels in the US, had experienced an improvement compared to December 2018, therefore underpinning future growth assumptions; and
 - ii) Assumed sales volumes per store across the expanded distribution network is based on historic actual volumes for comparable stores.
- EBITDA margin assumes a straight-line improvement from -5.0% in H2FY2020 to 10.0% in FY2024, where EBITDA margins remain constant thereafter. This assumption is based on benchmarking against various industry participants;
- Terminal year growth rate of 2.1% based on long term CPI;
- Discount rate of 13.0% post-tax;
- Costs of disposal of 5.0% of the estimated recoverable amount; and
- Projected cash flows covering H2FY2020 to FY2027.

Fair value was measured using Level 3 inputs under AASB 13.

* Percentage relates to the Nielsen measurement of the numbers of stores that carry the Yowie brand, indicating product availability to the consumer based on ACV (All Commodity Volume).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019



3. EXPENSES (continued)

(b) Impairment of non-current assets

The key assumptions used are based on the judgement and experience of the Group, taking into account current market and economic conditions, risks, uncertainties and opportunities for improvement.

Sensitivity Analysis

As the Group has recorded an impairment based on the FVLCD assessment, a number of reasonably possible changes to key assumptions would have a significant impact on the recoverable amount which the Group has considered and summarised below:

| Sensitivity | Impact of sensitivity on recoverable value ¹ US\$ |
|---|--|
| 10% adverse performance against projected net cash flows ² | (976,595) |
| 1 year delay in achieving expected growth in number of units sold based on targeted increase in distribution in ACV% ³ | (939,765) |
| Discount rate + / - 1% | (697,884) / 849,758 |
| Spoilage of goods +1% ⁴ | (320,727) |

¹ The sensitivity analysis above illustrates the impact of each individual sensitivity on the recoverable value as calculated using the FVLCD impairment modelling.

² This sensitivity reflects the revenue underperformance of 10%.

³ This sensitivity reflects a one year delay in achieving the growth targets and EBITDA margin target assumed within the budgets underpinning the FVLCD impairment assessment.

⁴ This sensitivity reflects the increase in the percentage of spoilage of goods in relation to gross sales by 1%.

31 December 2018

An impairment charge of \$0.4 million was recorded to adjust the net book value of idle production equipment to its current market value as estimated by the equipment manufacturer. The production equipment became idle during the period ended 31 December 2018 as the Group commissioned new equipment which results in an improved efficiency of the production plant and lower production cost.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**



4. EARNINGS / (LOSS) PER SHARE

| | Consolidated | |
|--|---|---|
| | Half-Year Ended 31 Dec 2019 Number | Half-Year Ended 31 Dec 2018 Number |
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share | 217,994,169 | 217,430,249 |
| | US\$ | US\$ |
| Basic loss attributable to ordinary equity holders of the parent | (2,932,941) | (871,442) |

This calculation does not include instruments that could potentially dilute basic earnings per share in the future as these instruments are anti-dilutive, since their inclusion would reduce the loss per share.

5. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|------------------|-----------------------------|-----------------------------|
| | 31 Dec 2019 US\$ | 30 Jun 2019 US\$ |
| Current | | |
| Trade debtors | 778,909 | 1,197,537 |
| Other debtors | 847 | 7,618 |
| GST receivable | 14,857 | 6,610 |
| Other assets | 235,741 | - |
| Accrued interest | - | 7,660 |
| | 1,030,354 | 1,219,425 |

6. PREPAYMENTS

| | Consolidated | |
|-----------------------------|-----------------------------|-----------------------------|
| | 31 Dec 2019 US\$ | 30 Jun 2019 US\$ |
| Current | | |
| Prepayments – raw materials | 745,997 | 1,004,507 |
| Prepayments – other | 188,781 | 380,487 |
| | 934,778 | 1,384,994 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**



7. INVENTORIES

| | Consolidated | |
|------------------------|------------------|------------------|
| | 31 Dec 2019 | 30 Jun 2019 |
| | US\$ | US\$ |
| Current | | |
| Raw materials | 2,406,360 | 1,796,401 |
| Work in progress | 122,939 | 68,253 |
| Finished goods | 2,485,793 | 2,847,500 |
| Allowance for disposal | (462,295) | (518,738) |
| | <u>4,552,797</u> | <u>4,193,416</u> |

Inventories are valued at the lower of cost or net realisable value.

Movement in the allowance for disposal of inventories is set out below.

| | | |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | (518,738) | (378,146) |
| Disposal | 105,513 | 1,616 |
| Additional allowance | (49,070) | (142,208) |
| Balance at the end of the year | <u>(462,295)</u> | <u>(518,738)</u> |

8. TRADE AND OTHER PAYABLES

| | Consolidated | |
|--------------------------------|------------------|------------------|
| | 31 Dec 2019 | 30 Jun 2019 |
| | US\$ | US\$ |
| Current | | |
| Trade payables and accruals | 1,023,501 | 1,258,981 |
| Rebate allowances ¹ | 2,239,114 | 2,055,914 |
| Other | 1,785 | 1,787 |
| | <u>3,264,400</u> | <u>3,316,682</u> |

¹ Rebate allowances include estimated accrual for promotional discounts, prompt payment discounts and spoilage of goods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019



9. ISSUED CAPITAL

| | US\$ | Number |
|---|-------------------|--------------------|
| Issue of ordinary shares during the half-year | | |
| As at 1 July 2018 | 55,635,991 | 216,744,323 |
| Conversion of rights | 70,273 | 1,004,664 |
| Share issue cost | (2,719) | - |
| As at 31 December 2018 | 55,703,545 | 217,748,987 |
| As at 1 July 2019 | 55,703,545 | 217,748,987 |
| Conversion of rights | 27,498 | 547,175 |
| Return of capital ¹ | (2,981,926) | - |
| Share issue cost | (1,306) | - |
| As at 31 December 2019 | 52,747,811 | 218,296,162 |

¹ Return of capital of A\$0.02 per share over 218,296,162 shares was approved by shareholders on 6 November 2019 and funds totalling A\$4,365,923 (equivalent to US\$2,981,926) were disbursed to shareholders on 26 November 2019.

10. SHARE-BASED PAYMENTS

No new rights or options were issued during the half-year ended 31 December 2019.

Share-based payment expense for the half-year ended 31 December 2018 is a credit balance of US\$50,447. This is mainly due to a reversal of share-based payment expense previously recognised in respect of the rights granted to Mr Cove Overley which failed to vest due to his resignation. This is calculated in accordance with AASB 2 *Share-based Payments*.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

Recurring fair value measurements

The Group does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

Fair values of financial instruments not measured at fair value

Due to their short-term nature, the carrying amounts of current receivables and current trade and other payables is assumed to equal their fair value.

12. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Group has a capital commitment of approximately US\$2.1 million at the end of reporting date.

(b) Contingencies

As reported previously, Yowie North America Inc. ("YNA"), a wholly owned subsidiary of the Group, had brought claims against Whetstone Chocolate Factory ("WCF") and Atlantic Candy Company ("ACC") for the release and return of the RASCH "Type FI" wrapping machine ("Wrapper") owned by the Group and located at ACC's facility, as well as for monetary damages. YNA negotiated a settlement agreement with ACC for the release and return of the wrapper and the wrapper has been returned. Consequently, the provision for impairment relating to the wrapping machine that was previously recognized was reversed during the half-year ended 31 December 2017.

In this same case (which has, since the last report, been consolidated with the other pending Florida state court action), ACC, Whetstone Industries ("WI"), and Henry M. Whetstone, Jr. ("Whetstone") have filed counterclaims against YNA alleging that YNA breached the Manufacturing Agreement, the Patent Agreement, violated the Florida Uniform Trade Secrets Act ("FUTSA") breached fiduciary duties owed to WI and ACC, and fraudulently induced ACC, WI, and Whetstone to enter into amendments to the Manufacturing and Patent Agreements.

For its claim of the breach of the Manufacturing Agreement, ACC and WI (as the purported successor-in-interest to the Manufacturing Agreement) allege that the Manufacturing Agreement was a requirements contract that required YNA to manufacture with ACC and WI until the agreement expired in 2027; however, YNA believes this is inconsistent with the plain language in the Manufacturing Agreement which only requires YNA to manufacture with ACC and WI when YNA is using Whetstone's patents to produce its chocolate and toy combination products. For its claim for breach of the Patent Agreement, Whetstone alleges that YNA owes him royalty fees from that time until 2027 under the Patent Technology and License Agreement regardless of whether the Company uses Whetstone's patent. Because the Company is no longer using Mr. Whetstone's (now expired) patent in its manufacturing process (and hasn't for several years), it believes that there is no legal basis under YNA's contract with Mr. Whetstone to pay him any royalty. For its FUTSA claim, WI and ACC claim that YNA impermissibly appropriated the technology from its manufacturing line to start its line with Madelaine. YNA rejects this as false and notes that the manufacturing line used at Madelaine is much newer and modern than WI's and ACC's manufacturing lines. For its breach of fiduciary duty claim, WI and ACC claim that YNA owed fiduciary duties to them, but this is inconsistent with Florida law which does not apply fiduciary duties in situation like these. Finally, for its fraudulent inducement claim, there is no support for any claim that YNA (or any of its agents) acted to coerce WI and ACC to enter into any amendment agreements.

12. COMMITMENTS AND CONTINGENCIES (continued)

(b) Contingencies (continued)

Both parties filed and argued cross-motions for summary judgment on issues related to the Patent Agreement in October 2017. On 13 September 2018, the Court entered an order denying both parties motions for summary judgment. No trial date is currently set for this matter so YNA cannot make a determination as to when this matter will be resolved. Further, for all the above causes of action, YNA has disclaimed liability and is defending the action. YNA considers no provision is warranted in relation to this counterclaim.

On 16 November 2017, in a related action, Whetstone Industries and Mr. Whetstone filed tortious interference claims against the Group and former Directors, Wayne Loxton, Patricia Fields, and Trevor Allen in Middle District of Florida. The Group, Wayne Loxton, Patricia Fields, and Trevor Allen were served with copies of these lawsuits in February 2018 and filed motions to dismiss for lack of personal jurisdiction in April 2018. On 25 July 2018, the court found jurisdiction in Florida. On 17 August 2018, all defendants filed a motion to dismiss the Complaint in its entirety for failure to state a claim upon which relief can be granted. The Court denied this motion to dismiss in August 2019. A scheduling order has been entered in this matter and trial is currently set for February 2021.

Management is not able to reliably estimate the ultimate settlement amounts at this time nor does management believe any material payments would be made as a result of these cases, and therefore no provision in relation to the claim has been recognised in the financial statements. The Company will incur ongoing legal costs due to these cases. However, due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from the legal proceedings, we have not made any provision for legal costs.

13. EVENTS SUBSEQUENT TO BALANCE DATE

No circumstances or events have arisen subsequent to the end of the period that have had, or are likely to have, a material impact on the financial statements.

**DIRECTORS' DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**



The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Board

A handwritten signature in blue ink, appearing to read "L Carroll", is written over a light blue rectangular background.

**Louis Carroll
Non-Executive Chairman**

28 February 2020

Independent Auditor's Review Report to the members of Yowie Group Limited

We have reviewed the accompanying half-year financial report of Yowie Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half year ended on that date, 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 end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of Yowie Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Yowie Group Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (a) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



David Newman

Partner

Chartered Accountants

Perth, 28 February 2020