

ASX ANNOUNCEMENT

ASX:YPB | 31 August 2021

H1 advances prospect of transformative breakthroughs in H2

- **MotifMicro1 completed as market ready product**
- **CONNECT upgraded with advanced analytics and track & trace**
- **MotifMicro1 global launch achieving strong potential partner engagement**
- **New customers signed and range extensions with existing customers**
- **Financial results broadly steady on pcp with strong cost control**

Anti-counterfeit and consumer engagement solutions provider **YPB Group Limited (ASX: YPB)** presents highlights of the half year ended 30 June 2021 (H1 2021).

MM1 advances in H1 2021 position for commercial breakthroughs in H2 2021

H1 2021 saw important technical and business advances that see YPB on the cusp of transformative commercial breakthroughs in H2 2021.

The most important of these advances was completing MotifMicro1 (MM1) to “market ready” status. MM1 is YPB's breakthrough forensic, smartphone-readable, anti-counterfeit technology for mass markets.

Achieving a market ready product after two years of development allowed the first concerted product launch in the company's history, targeting high value potential partners in key international geographies. The launch consisted of self-drive demonstration materials (MM1 infused demo cards) and controlled access to the MM1 App allowing direct user experience of the ease of use, speed and accuracy of the MM1 App in detecting MM1 particles in demo cards.

The launch has exceeded expectations, resulting in strong engagement with a range of partners who are expected to conduct paid commercial trials, the next step in the path to market, in H2 2021. The trials have negligible technical risk as MM1 has already been tested in full production line conditions on and in a variety of packaging surfaces and substrates, greatly increasing the probability of successful trials.

Should the paid trials be successfully concluded, the prospect of moving to full commercial relationships is solid as:

- Companies of the calibre in the target group agreeing to pay to trial a new product from a small Australian company is most uncommon and demonstrates recognition of MM1's originality and commercial potential, as well as creating product champions for MM1 within the trialling organisation; and
- A number are expressing interest in MM1 as a unique competitive tool in pitching for identified new work opportunities.

The prospect of commencing a number of paid trials in H2 2021 is very good. The prospect of then being able to achieve full commercial relationships prior to the end of 2021 is less clear but still good.

The majority of the engaged prospects have very high potential value for YPB and achieving a full relationship would prove the greatest commercial breakthrough in the company's history. A number of the targets are ultra-high-volume entities with the potential to singularly transform YPB's finances.

Very significantly, MM1 also achieved its first revenues in H1 2021. This was from channel partner WAPL introducing MM1 into the USA sneaker reseller market, a +\$ billion market with a high need for anti-counterfeit protection. This contract is worth \$1m over 5 years but starts small and is envisaged to progressively build over the contract life. This project is being implemented in two phases with the first completed, but a faster rollout and more rapid market penetration has been hampered by COVID-19.

Advanced analytics and track & trace broaden CONNECT prospects

During the half year ended 30 June 2021, YPB's consumer engagement and digital anti-counterfeit software platform, CONNECT, saw further functionality added that increases its value to customers in a range of industries.

Advanced analytics were added that present brands with greater insight into the dynamics of their markets and end consumers including:

- Demographics;
- First party data capture (compliant with privacy laws);
- Detailed product performance; and
- Detailed geographic analysis.

Track & Trace was also added at the request of a prospective customer. Its development was completed on time and budget and will see the customer replace a global multi-national's solution in its supply chain. Track & Trace opens other avenues for CONNECT.

Commercial progress behind plan due to COVID-19

Commercial performance was behind plan in H1 2021 as COVID-19 continued hindering normal business development, slowing or halting contract start-ups, and impacting consumer demand for products that use YPB's solutions as well as "lockdowns" hindering normal production schedules of YPB's customers.

The frustrations of the situation are well illustrated by an example from China (where COVID-19 restrictions and constraints are greater than is generally understood). Early in H1 2021, YPB China signed a significant channel partner for the tobacco and liquor industries with a 3-year contract under, which YPB would achieve receive revenues of ~A\$200k per annum. Due to no fault of the customer, however, COVID-19 restrictions hurt its business development and demand in the end markets it serves. Although this deal remains on foot, YPB has granted the customer leeway in fulfilling its obligations due to circumstances beyond its control. This contract is still expected to prove a meaningful revenue contributor, but timing is opaque presently.



COVID-19 continued to restrict business development in Australia but nonetheless prominent Natural Health and Beauty product manufacturer and marketer, Pytologic, became a CONNECT customer in the half.

Other existing Australian CONNECT customers expanded CONNECT coverage of their product ranges in the half, demonstrating value added by the product.

Financial results broadly steady on pcp

H1 2021 recorded a net loss after tax of \$1.795m in line with \$1.712m in the pcp.

Revenue fell \$60k due primarily to COVID-19 impacts on end-demand for the products of YPB's customers. Modest decrements per customer aggregated to this more significant figure.

Gross margin was an extremely strong 94.1%. The minor decline from the 97.2% in the pcp followed increased production costs following higher tracer sales. The enviable gross margins YPB is now consistently achieving reflects the value of its intellectual property and are a key element in the company moving quickly to profit as products gain traction and revenues grow. Each incremental revenue dollar is almost entirely pure profit.

Costs were tightly controlled during the half and despite movements in various line items total costs were flat on pcp at \$2.071m.

R&D costs rose 40% with deliberately increased investment resulting in the key technical advances in the half discussed above.

Net cash used in operations was up \$0.25m on pcp, due to the timing of various receipts and payments. The cash holding at balance date was \$1.354m. The net asset position of the company remained largely unchanged on pcp.

Corporate

Phillip Wade resigned as director in H1 2021 due to other personal and professional commitments. There is presently no plan to add to the three-person board.

YPB Group CEO John Houston said: *"Given the very real impediment of COVID-19 to our and our customers' businesses, our financial results for the half are acceptable. The lack of revenue growth has been disappointing but cost control remains intense.*

More importantly, the progress made with MM1 in particular in the half, although not externally obvious, has been profound. The response of tier 1 global leaders in various segments and geographies to the launch of MM1 has exceeded expectations and convinced me that it is a matter of when, not if, we achieve commercial breakthroughs with high value partners that can prove transformative for the company.

I look forward to reporting such developments as they occur."

This announcement has been authorised by the Board of YPB Group Limited.

Ends.



For further information please contact:

Investor enquiries

investors@ypbsystems.com

About YPB Group

YPB Group Limited (ASX:YPB) is an Australia-based product authentication and consumer engagement solutions provider. YPB's proprietary smartphone enabled technology suite allows consumers to confirm product authenticity and, for brands, that triggers consumers' engagement.

The combination of YPB's smartphone authentication solutions and its SaaS CONNECT platform, creates 'smart' product packaging, opening cost-effective, digital and direct marketing channels between brands and their consumers. CONNECT gathers actionable data on consumer preferences. It can then host tailored marketing campaigns directly back to the scanning smartphone.

YPB is currently focused on the rapidly growing Australian, South East Asian, and Chinese markets. Its focus is dairy, cannabis, alcohol and cosmetics where the viral growth of fake products, particularly in Asia, affects brand value and endangers consumers. To learn more please visit: ypbsystems.com

1. Company details

Name of entity: YPB Group Ltd
ACN: 108 649 421
Reporting period: For the half-year ended 30 June 2021
Previous period: For the half-year ended 30 June 2020

2. Results for announcement to the market

	Half year to 30 June 2021				Half year to 30 June 2020	
		\$'000			\$'000	\$'000
Revenues from ordinary activities	down	60	16.9%	to	293	353
Loss from ordinary activities after tax for the half-year attributable to the owners of YPB Group Ltd	up	83	4.8 %	to	(1,795)	(1,712)
Loss for the half-year attributable to the owners of YPB Group Ltd	up	83	4.8 %	to	(1,795)	(1,712)

Comments

The loss for the Consolidated Entity, after providing for income tax for the half year ended 30 June 2021 amounted to \$1,795,000 (30 June 2020: \$1,712,000). The operating loss includes significant items such as employee expenses, and research and development costs, which leaves an underlying cash outflow from operations of \$1,608,000 (30 June 2020: \$1,351,000). Revenue for the period was \$293,000 (30 June 2020: \$353,000) which represents a 16.9% decrease on the prior period.

3. Net tangible liabilities

	30 June 2021	30 June 2020
	Cents	Cents
Net tangible liabilities per ordinary security	(0.02)	(0.19)

The net tangible assets backing per ordinary security of (0.02) cents presented above is inclusive of right-of-use assets and lease liabilities. The net tangible asset backing per security, as at 30 June 2021, remains the same (0.02) cents if right-of-use assets were excluded, and lease liabilities were included in the calculation.

Net tangible assets are showing a negative value for the reporting and comparative periods due to the majority of recorded assets being intangible.

4. Gain and loss of control over entities

During the period ended 30 June 2021, the Consolidated Entity restructured the legal entity organisation structure, and as a result, nTouch IP Pty Ltd was deregistered (30 June 2020: NIL).

5. Dividends

Current period

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

Previous period

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

6. Dividend reinvestment plans

There are no dividend reinvestment plans for the half-year ended 30 June 2021 (30 June 2020: Nil).

7. Details of associates and joint venture entities

No changes since the previous annual report was released.

8. Foreign entities

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

There has been no change in foreign-owned subsidiaries to those reported for the year ended 31 December 2020. All group entities comply with International Financial Reporting Standards ('IFRS').

9. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The consolidated financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

10. Attachments

Details of attachment (if any):

The Interim Report of YPB Group Ltd for the half-year ended 30 June 2021 is attached.

11. Signed



John Houston

Date: 31 August 2021



YPB Group Ltd

ACN: 108 649 421

Interim Report – 30 June 2021

The directors present their report and the consolidated financial statements of YPB Group Ltd (the "Company") and its controlled entities (the "Consolidated Entity") for the half-year ended 30 June 2021.

1. Directors and Secretary

For the period under review and covered by this report, the following persons were director of the Company. Directors have been in office since the start of the half-year to the date of this report, unless otherwise stated.

Executive Chairman

John Houston

Non-Executive Directors

Su (George) Su

Gerard Eakin

Philip Wade - Resigned 2 March 2021

Company Secretary

Sebastian Andre

2. Principal Activities

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

3. Review of Operations

The consolidated loss of the Consolidated Entity after providing for income tax amounted to \$1,795,000 (30 June 2020: \$1,712,000). The operating loss includes a number of significant cash items such as employee expenses, and research and development costs, which leaves an underlying cash outflow from operations of \$1,608,000 (30 June 2020: \$1,351,000). Revenue for the period was \$293,000 (30 June 2020: \$353,000), which represents a 16.9% decrease over the comparative period.

The COVID-19 pandemic has had an adverse global economic impact and the Consolidated Entity has been actively working with its customers to assist them wherever possible and to monitor the potential risk for its revenue base. There does not appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Consolidated Entity unfavourably as at reporting date or subsequently as a result of the COVID-19 Pandemic. The Board continues to actively monitor the situation.

Significant Changes in State of Affairs

On 29 January 2021, John Houston exercised 375,000,000 options at an exercise price of \$0.002 per option into 375,000,000 of ordinary shares. The proceeds of \$750,000 from this exercising of options was received on 29 January 2021. Subsequently, the 375,000,000 shares were issued to John Houston on 2 February 2021.

On 24 February 2021, 1,729,007,903 of quoted options with at \$0.005 per option, were issued to investors who participated in the 24 August 2020 and 21 October 2020 capital raises. Total value of these options, should they be fully exercised before the expiry date of 23 February 2022 is \$8,645,000.

On 1 March 2021, firm commitments from sophisticated, professional, and institutional investors were received to raise up to \$750,000. Under the placement, YPB will issue 250,000,000 fully paid ordinary shares at an issue price of \$0.003 per share and one free attaching option (exercisable at \$0.005 per option on or before 23 February 2022) for each share issued under the placement. Total value of these options, should they be fully exercised before the expiry date is \$1,250,000.

On 20 May 2021, YPB established a small shareholding sale facility for shareholders who hold less than A\$500 worth of fully paid ordinary YPB shares.

4. Events Subsequent to Balance Sheet Date

On 4 August 2021, the Company completed the small shareholding sale facility for shareholders who hold less than A\$500 worth of fully paid ordinary YPB shares.

Other than the above, no matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

5. Rounding of Amounts

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

6. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on the following page.

YPB Group Ltd
Directors' report
30 June 2021

This report is made in accordance with a resolution of directors, pursuant to Section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



John Houston
Executive Chairman

Dated: 31 August 2021

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

I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2021, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

PKF

PKF BRISBANE AUDIT



SHAUN LINDEMANN
PARTNER

31 AUGUST 2021
BRISBANE

YPB Group Ltd
Contents
30 June 2021

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YPB Group Ltd

Consolidated statement of profit or loss and other comprehensive income / (loss)

For the half-year ended 30 June 2021

	Note	Half year to 30 June 2021 \$'000	Half year to 30 June 2020 \$'000
Revenue	4	293	353
Expenses			
Consulting		(164)	(320)
Depreciation and amortisation expense		(80)	(114)
Directors' fees		(40)	(150)
Employee benefits expense		(812)	(870)
Finance costs		(138)	(111)
Production costs		(17)	(10)
Rental expenses		(22)	(55)
Research and development costs		(202)	(144)
Marketing costs		(20)	(28)
Investor Relations		(188)	-
Travelling expenses		(6)	(30)
Share-based payments		-	(29)
Regulatory expenses		(102)	(20)
Professional fees		(103)	(133)
Other expenses		(343)	(339)
Exchange gain		149	290
Loss before income tax expense		(1,795)	(1,710)
Income tax expense		-	(2)
Loss after income tax expense for the half-year attributable to the owners of YPB Group Ltd		(1,795)	(1,712)
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(14)	(187)
Other comprehensive loss for the half-year, net of tax		(14)	(187)
Total comprehensive loss for the half-year period attributable to the owners of YPB Group Ltd		(1,809)	(1,899)
		Cents	Cents
Basic and diluted earnings per share	12	(0.04)	(0.17)

The above consolidated statement of profit or loss and other comprehensive income / (loss) should be read in conjunction with the accompanying notes.

YPB Group Ltd
Consolidated statement of financial position
As at 30 June 2021

		As at	As at
	Note	30 June	31
		2021	December
		\$'000	2020
			\$'000
Assets			
Current assets			
Cash and cash equivalents		1,354	1,559
Trade and other receivables		295	312
Other assets		232	385
Inventories		209	216
		2,090	2,472
Non-current assets			
Plant and equipment		52	61
Right-of-use assets		11	78
Intangibles	5	5,716	5,580
		5,779	5,719
Total assets		7,869	8,191
Liabilities			
Current liabilities			
Trade and other payables	6	1,683	1,862
Lease liabilities		9	68
Financial liabilities	7	1,605	1,598
		3,297	3,528
Total liabilities		3,297	3,528
Net assets		4,572	4,663
Equity			
Issued capital	8	78,818	77,665
Reserves	9	3,463	4,981
Accumulated losses		(77,709)	(77,983)
Total equity		4,572	4,663

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

YPB Group Ltd
Consolidated statement of changes in equity
For the half-year ended 30 June 2021

	Issued capital \$'000	Foreign currency translation reserve \$'000	Issued options \$'000	Share- based payment reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated						
Balance at 1 January 2021	77,665	2,941	2,040	-	(77,983)	4,663
Prior periods audit adjustments ¹	-	-	-	-	29	29
Adjusted balance at 1 January 2021	77,665	2,941	2,040	-	(77,954)	4,692
Loss after income tax benefit for the half-year	-	-	-	-	(1,795)	(1,795)
Other comprehensive loss for the half-year, net of tax	-	(14)	-	-	-	(14)
Total comprehensive loss for the half-year	-	(14)	-	-	(1,795)	(1,809)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued, net of transaction costs	403	-	-	-	-	403
Options lapsed during the half-year	-	-	(765)	-	765	-
Options granted during the half-year	-	-	536	-	-	536
Options exercised during the half-year	750	-	(1,275)	-	1,275	750
Balance at 30 June 2021	78,818	2,927	536	-	(77,709)	4,572

Note 1: The prior period adjustment arose from YPB Limited ("YPB HK"), a wholly-owned subsidiary of the Consolidated Entity, resulting from the audit of its financial statements for the period 1 April 2020 to 31 December 2020 that was completed during 2021.

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

YPB Group Ltd
Consolidated statement of changes in equity
For the half-year ended 30 June 2021

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Issued options \$'000	Share-based payment reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2020	69,126	1,139	961	399	(66,472)	5,153
Loss after income tax benefit for the half-year	-	-	-	-	(1,712)	(1,712)
Other comprehensive loss for the half-year, net of tax	-	(187)	-	-	-	(187)
Total comprehensive loss for the half-year	-	(187)	-	-	(1,712)	(1,899)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued, net of transaction costs	-	-	-	-	-	-
Options lapsed during the half-year	-	-	(954)	(1)	954	(1)
Options granted during the half-year	-	-	-	29	-	29
Options exercised during the half-year	60	-	-	(60)	-	-
Balance at 30 June 2020	69,186	952	7	367	(67,230)	3,282

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

YPB Group Ltd
Consolidated statement of cash flows
For the half-year ended 30 June 2021

	Note	Half year to 30 June 2021 \$'000	Half year to 30 June 2020 \$'000
Cash flows from operating activities			
Receipts from customers		346	364
Payments to suppliers and employees		(1,847)	(1,639)
Interest received		-	1
Finance costs		(107)	(77)
Net cash used in operating activities		<u>(1,608)</u>	<u>(1,351)</u>
Cash flows from investing activities			
Payments for plant and equipment		(7)	(4)
Proceeds on disposal of PPE		7	-
Net cash used in investing activities		<u>-</u>	<u>(4)</u>
Cash flows from financing activities			
Proceeds from issue of shares (net of costs)		705	-
Proceeds from exercise of options		750	-
Proceeds from borrowings		-	1,200
Payment of lease liabilities		(52)	(93)
Net cash from financing activities		<u>1,403</u>	<u>1,107</u>
Net decrease in cash and cash equivalents		(205)	(248)
Cash and cash equivalents at the beginning of the financial year		<u>1,559</u>	<u>774</u>
Cash and cash equivalents at the end of the financial year		<u>1,354</u>	<u>526</u>

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

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

Note 1. General information

These consolidated financial statements and notes to the consolidated financial statements cover YPB Group Ltd and the entities it controlled (the "Consolidated Entity" or "Group") at the end of, or during, the half-year. The separate financial statements of the parent entity, YBP Group Limited, have not been presented within this financial report as permitted by the Corporations Act 2001. The consolidated financial statements are presented in Australian dollars, which is YPB Group Ltd's functional and presentation currency.

The company is a listed public company incorporated and domiciled in Australia. Its registered office in Australia is Suite 1, 295 Rokeby Road, Subiaco, WA 6008.

The consolidated financial statements were authorised for issue, in accordance with a resolution of directors, on 31 August 2021.

Note 2. Significant accounting policies

These general purpose consolidated financial statements for the half-year ended 30 June 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose consolidated financial statements do not include all the notes of the type normally included in annual consolidated financial statements. Accordingly, these consolidated financial statements are to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year, except as stated below.

New, revised or amending Accounting Standards and Interpretations adopted

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2020. A number of new standards are effective from 1 January 2021 but they do not have a material effect on the Group's financial statements.

Critical Accounting Judgments and Key Sources of Estimation and Uncertainty

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The following are the critical judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts recognised in the consolidated financial statements.

Impairment of Intangible Assets other than Goodwill

In the process of evaluating the potential impairment of intangible assets other than goodwill, the Consolidated Entity is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of the industry that is applicable to the underlying technology. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years. 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 underlying technology of MotifMicro is still under constant development and therefore management has considered the carrying value of the patent licence rights to be supported through expected future generation of cash flows from the first-time adoption program with the current partners and additional partners in the pipeline. In addition, the technological milestone achievements during the period has also enhanced the intrinsic value of MotifMicro. However, the ongoing negative effects of COVID-19 on the business and global economy is causing a delay in the commercialisation of MotifMicro technology and therefore the ramp-up in revenues is expected to occur in FY2022. Furthermore, management is exploring other business strategies to accelerate the development of MotifMicro that would support the carrying amount of the patent license rights.

Going concern

The financial statements have been prepared on a going concern basis.

The Directors note that the Group has continued to incur operating losses as it establishes its business model throughout various markets, performs internal restructuring, and improves the conversion rate of its order pipeline.

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

The group incurred an operating loss after tax for the half-year of \$1,795,000, had net cash outflows from operating activities of \$1,608,000 and a deficiency of current assets over current liabilities of \$1,207,000. As at 30 June 2021, the Group has cash and cash equivalents of \$1,354,000.

Notwithstanding this, the Group believes there are reasonable grounds that it will be able to pay its debts as and when they fall due, and on that basis the preparation of the consolidated financial statements on a going concern basis is dependent on the following points:

- The Directors have completed a reforecast of the cash flow for the remainder of the financial year, and for a period being not less than 12 months from the date of signing this report. This includes reliance on further capital raising activities via new equity placements by the end of 2021, showing positive cash balances which is supported by both the existing sales contracts as well as reflecting revenue growth expected from the sales pipeline.
- The Group is continuing to explore alternative funding mechanisms including securing strategic partnerships.

Based on the above, the directors consider the going concern basis of the Group is appropriate.

Note 3. 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 half year ended 30 June 2021, management considers the Group to offer its client base a complete end-to-end service and product offering, hence considering its main operations to be represented by one business segment.

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

The bundled "complete solution offering" encompasses a range of products and services which are available to customers, including:

- Digital engagement platform that provides brand engagement with end consumers to promote product authenticity;
- 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; and
- Brand protection labelling solutions effective for sellers, brands and product owners.

(a) Geographical information

<i>In \$'000</i>	Australia	People's Republic of China	Thailand	United States of America	Total
Half-year to June 2021					
External revenue	106	167	-	-	273
Interest income	1	-	-	-	1
Other income	-	6	13	-	19
Total revenue	107	173	13	-	293
Half-year to June 2020					
External revenue	127	158	-	46	331
Interest income	1	-	-	-	1
Other income	15	6	-	-	21
Total revenue	143	164	-	46	353

(b) Assets

<i>In \$'000</i>	Reportable segments				Total
	Australia	People's Republic of China	Thailand	United States of America	
As at 30 June 2021					
Current assets	1,388	367	334	1	2,090
Non-current assets	-	6	45	5,728	5,779
Total assets	1,388	373	379	5,729	7,869
As at 31 December 2020					
Current assets	1,808	345	318	1	2,472
Non-current assets	-	7	118	5,594	5,719
Total assets	1,808	352	436	5,595	8,191

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

Note 4. Revenue

	Half year to 30 June 2021 \$'000	Half year to 30 June 2020 \$'000
<i>Revenue</i>		
Sale of goods and services	273	331
<i>Other revenue</i>		
Interest	1	1
Other income	19	21
	<u>293</u>	<u>353</u>

During the half year, the Group received nil subsidies (30 June 2020: \$21,000) from the government of local jurisdictions relating to the various COVID-19 financial assistance packages.

Note 5. Intangibles

	As at 30 June 2021 \$'000	As at 31 December 2020 \$'000
Goodwill – at cost	3,089	3,089
Less: Accumulated impairment losses	(3,089)	(3,089)
	<u>-</u>	<u>-</u>
Intellectual property – at cost	14,795	16,250
Less: Accumulated amortisation	(4,308)	(4,942)
Less: Accumulated impairment losses	(10,487)	(11,308)
	<u>-</u>	<u>-</u>
Customer relationship – at cost	206	206
Less: Accumulated amortisation	(28)	(28)
Less: Accumulated impairment losses	(178)	(178)
	<u>-</u>	<u>-</u>
Patent licence rights – at cost	7,927	7,919
Less: Accumulated impairment losses	(2,211)	(2,339)
	<u>5,716</u>	<u>5,580</u>

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

Reconciliations

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

Consolidated	Patent licence rights \$'000	Total \$'000
Balance at 31 December 2020	5,580	5,580
Balance at 1 January 2021	5,580	5,580
Effect of movement in exchange rates	136	136
Balance at 30 June 2021	5,716	5,716

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.

Intellectual Property

In 2018, in reviewing the recoverable amount of the intellectual property, the carrying value was written to nil due to overhauls on the Group's core products and upgrades to the underlying technologies.

Patent Licence Rights

Effective in December 2017, the Group acquired MotifMicro's patented licence rights to develop and commercialise its secure smartphone readable authentication technology. The non-replicable invisible micro-barcode technology works whereby the smartphone becomes the authentication device for uncopiable, invisible and indestructible physical marking technology.

In February 2018, a specific milestone under the agreement was successfully achieved with MotifMicro under which an additional \$851,000 was payable to the vendors. The corresponding payable was settled via the issue of ordinary shares in October 2018.

As the technology was still in the development phase and not commercially available for use during the period ended 30 June 2020, the patent licence rights have not been amortised. The progress of the MotifMicro development in 2020 was advanced through a number of technological achievements together with two customers that signed first-adopter agreements in 2019 to expedite its commercialisation in the market. The company is pursuing further opportunities to commercially release MotifMicro in the near future.

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

An independent valuation was conducted by Nexia Brisbane Forensics Pty Ltd ('Nexia') to perform a Value in Use ('VIU') valuation of the patent licence rights of MotifMicro for the year ended 31 December 2020. The independent valuation provided a valuation of \$5,580,000. As a result, an impairment loss expense of \$333,000 was recognised to write-down the patent licence rights to \$5,580,000.

The directors have applied the 'value in use' methodology to assess the carrying value of the patent licence rights at 30 June 2021. The half-year impairment assessment was based on a reforecast of the approved annual operating plan ('AOP') and the accompanying five-year outlook.

The key assumptions and results arising from the 'value in use' methodology, based on approved AOP, relating to the commercialisation of the technology include:

- Revenue growth from conversion of sales pipeline revised to \$0.187m for FY2021 with an annual long-term growth of 12% until 2026 that follows the industry growth rate with a long-term annual growth rate of 2% thereafter;
- EBITDA loss of \$571,000 to be achieved by the end of FY2021;
- Discounted cash flow modelling to 2034 with no terminal value;
- A WACC of 20.1% (post-tax) assuming a long-term debt/equity ratio of 30%; and
- The group securing sufficient funding to continue as a going concern.

The valuation methodology has been updated as at 30 June 2021 to reflect updated forecasts and progress made on the MotifMicro technology.

The impairment testing indicated that the recoverable amount of the patent licence rights exceeds the carrying amount and therefore no impairment is considered necessary as at 30 June 2021. The sensitivity analysis conducted by the directors indicates that a downward variation of 10% of the budgeted FY2021 revenue streams still provides headroom but not enough for the directors to consider reversing any of the previous impairment losses.

Total impairment losses recorded as at 30 June 2021 is \$2,212,000 (30 June 2020: \$2,040,000), and this loss can be reversed in future accounting periods to the extent that future recoverable amounts support a higher carrying value.

The license rights are not yet being amortised over a useful life as the Directors have not yet determined that the rights are in their intended use.

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

Note 6. Trade and other payables

	As at 30 June 2021 \$'000	As at 31 December 2020 \$'000
Trade payables	596	971
Other payables and accruals	1,087	891
	<u>1,683</u>	<u>1,862</u>

Note 7. Financial liabilities

	As at 30 June 2021 \$'000	As at 31 December 2020 \$'000
Convertible notes (Sophisticated investors)	1,606	1,598

These convertible notes will accrue interest on their face value daily at an interest rate of 10% per annum, and the noteholders may elect by issuing a conversion notice to the Group to convert the note on or prior to, the maturity date of 18 November 2021.

As at 30 June 2021, \$155,318 (31 December 2020: \$148,260) of convertible loan notes interest was accrued.

Note 8. Equity – Issued Capital

	30 June 2021 Shares	31 December 2020 Shares	30 June 2021 \$'000	31 December 2020 \$'000
Ordinary shares – fully paid	4,991,820,518	4,228,358,979	78,818	77,665

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 January 2021	4,228,358,979	77,665
Issuance as payment to service provider	29 January 2021	117,692,309	294
Conversion of options	29 January 2021	375,000,000	750
Share placements	11 March 2021	250,000,000	750
Issuance as payment to service provider	9 April 2021	20,769,230	62
Less: Transaction costs on shares issued, net of tax		-	(703)
Balance	30 June 2021	<u>4,991,820,518</u>	<u>78,818</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 9. Equity – Reserves

		30 June 2021	31 December 2020
	Note	\$'000	\$'000
Issued options reserve	(a)	536	2,040
Foreign currency translation reserve	(b)	2,927	2,941
		<u>3,463</u>	<u>4,981</u>

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

(a) Issued options reserve

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

Details	Date	Options	\$'000
Balance	1 January 2021	664,000,000	2,040
Options granted	23 February 2021	326,923,077	440
Options granted to Aug 2020 Capital raise investors (free attaching option)	23 February 2021	130,000,000	-
Options granted to Oct 2020 Capital raise investors (free attaching option)	23 February 2021	1,272,084,825	-
Options exercised	29 January 2021	(375,000,000)	(1,275)
Options expired	31 January 2021	(225,000,000)	(765)
Options granted	9 April 2021	57,692,308	96
Options granted to Mar 2021 Capital raise investors (free attaching option)	9 April 2021	250,000,000	-
Balance		<u>2,100,700,210</u>	<u>536</u>

(b) Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. Monetary items receivable from or payable to foreign operations whereby settlements to these receivables and payables are not planned nor likely to occur in the foreseeable future are classified as net investment in foreign operations. Exchange differences arising from monetary items that forms part of the Group's net investment in foreign operations are recognised as foreign currency translation reserve in equity.

Note 10. Dividends

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

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

Note 11. Events after the reporting period

On 4 August 2021, the Company completed the small shareholding sale facility for shareholders who hold less than A\$500 worth of fully paid ordinary YPB shares.

Other than the above, no matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Note 12. Earnings per share

	30 June 2021	30 June 2020
	\$'000	\$'000
Loss after income tax attributable to the owners of YPB Group Limited	(1,795)	(1,712)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	4,804,835,818	998,992,967
Weighted average number of ordinary shares used in calculating diluted earnings per share	4,804,835,818	998,992,967
	Cents	Cents
Basic/Diluted earnings per share	(0.04)	(0.17)

There are 2,036,700,210 in share options issued but not included in diluted earnings per share as these would have an antidilutive effect on earnings per share. These potential ordinary shares are antidilutive as their conversion to ordinary shares would decrease loss per share. If these share options were included in the calculation of diluted earnings per share, the weighted average number of shares used in the denominator would be 6,841,536,028.

YPB Group Ltd
Notes to the consolidated financial statements
For the half-year ended 30 June 2021

Note 13. Related party transactions

	Transaction values for the period ended 30 June 2021 \$'000	Transaction values for the year 31 December 2020 \$'000
<i>Manifest Capital Management Pty Ltd (related entity of Gerard Eakin)</i>		
Investor Relations	40	-
<i>J F Houston Holdings Pty Ltd (related entity of John Houston)</i>		
Short-term borrowings to YPB Group Ltd	-	1,200
Interest on short-term borrowings	-	37
	<u>-</u>	<u>1,237</u>

Terms and conditions

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

Other transactions with related parties

There were no other transactions with related parties for the half year ended 30 June 2021.

YPB Group Ltd
Directors' declaration
For the half-year ended 30 June 2021

In the directors' opinion:

- the attached consolidated financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached consolidated financial statements and notes give a true and fair view of the Consolidated Entity's consolidated financial position as at 30 June 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

For and on behalf of the directors



John Houston
Executive Chairman

Date: 31 August 2021

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

Conclusion

We have reviewed the accompanying half-year financial report of YPB Group Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the half-year's end or from time to time during the financial half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021, and of its financial performance for the half-year ended on that date; and
- (b) complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the consolidated entity in accordance with the auditor independence requirements of 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Independence

In conducting our review, we have complied with the auditor independence requirements of the *Corporations Act 2001*. In accordance with the *Corporations Act 2001*, we have given the directors of the company a written Auditor's Independence Declaration.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial statements which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore its ability to realise its assets

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and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the Directors for the 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 the Australian Accounting Standards and the *Corporations Regulations 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half year financial report based on our review. ASRE 2410 requires us to conclude whether 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 30 June 2021 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*.

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.

PKF

PKF BRISBANE AUDIT



SHAUN LINDEMANN
PARTNER

31 AUGUST 2021
BRISBANE