



## ASX ANNOUNCEMENT

ASX: YPB | 31 January 2019

### Review of December 2018 quarter activities

#### Key highlights:

- **Achieved cash receipts of A\$368,000**
- **December 2018 had record monthly revenue figure with payment due in Q1, 2019**
- **Increase in cash receipts from retail anti-theft products**
- **Reduced and administration fees and reduced overheads including operations in China**
- **Retired US\$145,000 expensive debt facility from Bracknor with full release**
- **Completed A\$1.5M convertible note from strategic investors**
- **Finalised cost reduction plan with benefits being delivered from Q1, 2019**

Product Authenticity and Customer Engagement solutions provider YPB Group Ltd (ASX: YPB) presents a summary of activities for the quarter ended 31 December 2018.

- Building momentum in the high security passport business line with a US\$180k order placed from our key customers in the US during Q4 2018. Expect to receive payment in Q1, 2019.
- Significant number of new customer wins for the quarter
- Payments on non-COGS increased by 12% in Q4 compared to Q3, due to increase in marketing and roadshows including a technical summit in Beijing where YPB won two awards.
- One-off redundancy costs of \$120k from the staff restructuring, particularly in China.
- The reduction in staff costs is expected to be realised from January 2019 onwards due to the operational streamlining initiatives that took effect from mid 2018.
- The convertible loan note of \$1.5m was successfully completed in December from strategic investors. Incurred, one time transaction costs of \$173k.
- Research & development expenditure will continue into Q1 2019 with particular focus on smartphone application for the Android platform and also ongoing enhancements to our Connect platform. YPB believes this will help deliver a better solution and win more customer contracts.
- On 2 Jan 2019, YPB paid USD 145k to fully settle the outstanding loan balance with Bracknor and obtained a signed Deed of Release to improve our balance sheet position and reduce interest payments. Bracknor no longer holds shares in YPB.

#### Significant business progress in H2 2018 to become visible in H1 2019

The new management and sales teams are achieving breakthroughs with both new and existing channel partners and new and existing end clients and this is likely to result in important new business in both Q1 and Q2 2019 and build progressively over the year.

Specifically, new customers or increased volumes with existing customers are expected to be added in:



- Wine – global major Accolade, (signing announced October 2018) is likely to begin contributing revenue in the H1 2019. If the substantial commercial trial in the Grant Burge range is successful, and should Accolade then choose to roll out YPB's solutions to other relevant parts of its portfolio, this single client is potentially bigger than YPB's present entire revenue base. Other new wine clients are expected to be added in Q1 and Q2.
- Cannabis – YPB is working closely with global cannabis platform operator Namaste Technologies Inc (TSX-V: N) to protect cannabis brands and their customers using the Namaste e-commerce platforms. Starting in mid-2018 with a rush of signings, new client momentum disappointed later in the year as the whole cannabis industry became totally absorbed by the launch of legal cannabis in Canada. Now the industry has settled somewhat, further traction is expected with new cannabis clients in H1 2019 under the Cannabis Confirmed initiative with Namaste.
- Pharma – A major client in SE Asia is expected to double its volumes with YPB in H1 2019 via expanded range coverage. This client is also advocating on YPB's behalf and has opened doors to five other pharma manufacturers in the region with whom engagement is strong. YPB has so far supplied around 50 million units to this one Pharma client.
- Health and Beauty – a major unlisted nutraceutical Australian and international brand is expected to commit to trialing YPB's solutions on part of its range in Q1 2019.
- Retail Anti-Theft and Engagement – trials of the revolutionary Concept Tag by a number of national retail chains have all demonstrated exceptional loss prevention and very high ROI. Sales traction is expected in H1 2019.

This increased likelihood of new business noted above has been driven by:

- Recruitment of high calibre, experienced and networked sales personnel – sales effectiveness has risen sharply and respected technical sales expertise with existing industry contacts is opening doors;
- Extensive Productisation of the whole applications suite removing barriers to adoption and greatly increasing potential market size – a major breakthrough has been achieved in offering the YPB Connect customer engagement platform to those with no interest in anti-counterfeit e.g. domestic FMCG brands. The value, effectiveness and simplicity of YPB's solutions is being recognised and trials with household name brands in H1 2019 are likely. This is in part due to a significant barrier to adoption, the very limited ability of printers to print serialised QR codes, being eliminated. The use of static QR codes that link back to the sophisticated engagement and analytics capabilities of YPB Connect rather than a static website is highly appealing;
- Better vertical targeting – the developing success in wine, for example, is due to reputational halo effects and industry specific technology. The Vintail NFC protection and engagement solution, for example, has been developed over the past eight months to an in-line application, mass production capability;
- Increased emphasis on channel partners – developing partnerships with large suppliers who have big customers where YPB's unique solutions add clear client benefit and supplier differentiation. A number of trials by brands in conjunction with new, high quality channel partners are probable in H1 2019. The three new channel partners in China (announced September and October 2018) supplying YPB solutions to global majors in autos, oil, consumer electronics and FMCG will clearly improve YPB China's revenue base and have the potential for significant volume growth; and



- The great commercial appeal of smartphone readability (Motif Micro's major breakthrough of August 2018) to transform a brand's packaging investment into a low cost, high return, direct engagement channel. Brands immediately get the power of leveraging a ubiquitous technology for minimal additional cost.

One of the important expected benefits of the above initiatives is shortened sales cycles. To date, virtually all new client engagement has been slow but there are clear signs of cycles starting to shorten.

An important regulatory development in H2 2018 was the new China Cross-Border E-Commerce law of August 2018. The new law is in part intended to ensure Chinese consumers buying online from offshore are protected from counterfeit and receive the authentic product they intended to purchase. Opinions are mixed as to its likely impact but some believe it may still drive the adoption of anti-counterfeit and engagement solutions.

### **Funding and Token Sale Initiative**

Funding of \$1.5m was received in Q4 2018 via a Convertible Note to a group of crypto token-related strategic investors. The note was approved by shareholders at an EGM held 30 October 2018.

The Bracknor loan facility has been fully paid out and the relationship between the two parties has been finalised with a full release from any further obligations to Bracknor. It should be noted that Bracknor has held no YPB shares since October 2017.

The YPB Token project has progressed during the quarter and our facilitators First Growth Funds have advised that listing is expected to occur in the March quarter. The Company will provide further details on the token project in the coming weeks.

YPB expects to raise further capital in the current quarter. Strategic investors with interest in industry-specific applications of YPB's solutions are being emphasised.

YPB Executive Chairman John Houston said: "Over H2 2018 our revitalised team has achieved more behind-the-scenes commercial advances than were made over the prior three years and this progress will become increasingly apparent to shareholders through H1 2019. I am strongly confident that 2019 will finally prove the transformational year for YPB where conversion of opportunity into revenue and ultimately profitability will clearly advance the rebuilding of shareholder value and start to demonstrate the company's true potential."

For further information please contact:

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## About YPB

YPB Group Ltd (ASX:YPB) brings packaging to life through its proprietary technology suite that provides certainty of authenticity and connects brands directly to consumers enabling new levels of market intelligence and ROI data capture.

In an evolving marketplace and with the rapid growth of cross border commerce, our expertise presently focuses on the rapidly growing consumer markets of Australia, South East Asia and China.

[www.ypbsystems.com](http://www.ypbsystems.com)

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

YPB Group Limited

ABN

**Quarter ended ("current quarter")**

68 108 649 421

31 December 2018

| <b>Consolidated statement of cash flows</b>               |  | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(12 months)<br/>\$A'000</b> |
|-----------------------------------------------------------|--|------------------------------------|-------------------------------------------------|
| <b>1. Cash flows from operating activities</b>            |  |                                    |                                                 |
| 1.1 Receipts from customers                               |  | 368                                | 1,877                                           |
| 1.2 Payments for                                          |  |                                    |                                                 |
| (a) research and development                              |  | -                                  | (147)                                           |
| (b) product manufacturing and operating costs             |  | (152)                              | (702)                                           |
| (c) advertising and marketing                             |  | (76)                               | (130)                                           |
| (d) leased assets                                         |  | (108)                              | (374)                                           |
| (e) staff costs                                           |  | (1,169)                            | (4,748)                                         |
| (f) administration and corporate costs                    |  | (366)                              | (1,944)                                         |
| 1.3 Dividends received (see note 3)                       |  | -                                  | -                                               |
| 1.4 Interest received                                     |  | 1                                  | 14                                              |
| 1.5 Interest and other costs of finance paid              |  | -                                  | (33)                                            |
| 1.6 Income taxes paid                                     |  | -                                  | (8)                                             |
| 1.7 Government grants and tax incentives                  |  | -                                  | 341                                             |
| 1.8 Other (provide details if material)                   |  | 49                                 | 224                                             |
| <b>1.9 Net cash from / (used in) operating activities</b> |  | <b>(1,453)</b>                     | <b>(5,630)</b>                                  |
| <b>2. Cash flows from investing activities</b>            |  |                                    |                                                 |
| 2.1 Payments to acquire:                                  |  |                                    |                                                 |
| (a) property, plant and equipment                         |  | (9)                                | (32)                                            |
| (b) businesses (see item 10)                              |  | -                                  | (1,444)                                         |
| (c) investments                                           |  | -                                  | -                                               |

| Consolidated statement of cash flows |                                                                              | Current quarter<br>\$A'000 | Year to date<br>(12 months)<br>\$A'000 |
|--------------------------------------|------------------------------------------------------------------------------|----------------------------|----------------------------------------|
|                                      | (d) intellectual property                                                    | -                          | -                                      |
|                                      | (e) other non-current assets                                                 | -                          | -                                      |
| 2.2                                  | Proceeds from disposal of:                                                   |                            |                                        |
|                                      | (a) property, plant and equipment                                            | -                          | -                                      |
|                                      | (b) businesses (see item 10)                                                 | -                          | -                                      |
|                                      | (c) investments                                                              | -                          | -                                      |
|                                      | (d) intellectual property                                                    | -                          | -                                      |
|                                      | (e) other non-current assets                                                 | -                          | -                                      |
| 2.3                                  | Cash flows from loans to other entities                                      | -                          | -                                      |
| 2.4                                  | Dividends received (see note 3)                                              | -                          | -                                      |
| 2.5                                  | Other (provide details if material)                                          | -                          | -                                      |
| <b>2.6</b>                           | <b>Net cash from / (used in) investing activities</b>                        | <b>(9)</b>                 | <b>(1,476)</b>                         |
| <b>3.</b>                            | <b>Cash flows from financing activities</b>                                  |                            |                                        |
| 3.1                                  | Proceeds from issues of shares                                               | -                          | 7,518                                  |
| 3.2                                  | Proceeds from issue of convertible notes                                     | 1,500                      | 1,500                                  |
| 3.3                                  | Proceeds from exercise of share options                                      | -                          | -                                      |
| 3.4                                  | Transaction costs related to issues of shares, convertible notes or options  | (173)                      | (495)                                  |
| 3.5                                  | Proceeds from borrowings                                                     | -                          | -                                      |
| 3.6                                  | Repayment of borrowings                                                      | (242)                      | (1,797)                                |
| 3.7                                  | Transaction costs related to loans and borrowings                            | -                          | -                                      |
| 3.8                                  | Dividends paid                                                               | -                          | -                                      |
| 3.9                                  | Other (provide details if material)                                          | -                          | -                                      |
| <b>3.10</b>                          | <b>Net cash from / (used in) financing activities</b>                        | <b>1,085</b>               | <b>6,726</b>                           |
| <b>4.</b>                            | <b>Net increase / (decrease) in cash and cash equivalents for the period</b> |                            |                                        |
| 4.1                                  | Cash and cash equivalents at beginning of quarter/year to date               | 866                        | 860                                    |
| 4.2                                  | Net cash from / (used in) operating activities (item 1.9 above)              | (1,453)                    | (5,630)                                |

| Consolidated statement of cash flows |                                                                  | Current quarter<br>\$A'000 | Year to date<br>(12 months)<br>\$A'000 |
|--------------------------------------|------------------------------------------------------------------|----------------------------|----------------------------------------|
| 4.3                                  | Net cash from / (used in) investing activities (item 2.6 above)  | (9)                        | (1,476)                                |
| 4.4                                  | Net cash from / (used in) financing activities (item 3.10 above) | 1,085                      | 6,726                                  |
| 4.5                                  | Effect of movement in exchange rates on cash held                | (5)                        | 4                                      |
| 4.6                                  | <b>Cash and cash equivalents at end of quarter</b>               | <b>484</b>                 | <b>484</b>                             |

| 5.  | Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------------|
| 5.1 | Bank balances                                                                                                                                                     | 484                        | 866                         |
| 5.2 | Call deposits                                                                                                                                                     |                            |                             |
| 5.3 | Bank overdrafts                                                                                                                                                   |                            |                             |
| 5.4 | Other (provide details)                                                                                                                                           |                            |                             |
| 5.5 | <b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>                                                                                  | <b>484</b>                 | <b>866</b>                  |

**6. Payments to directors of the entity and their associates**

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

| Current quarter<br>\$A'000 |
|----------------------------|
| 70                         |
| -                          |

| 7. Payments to related entities of the entity and their associates                                       | Current quarter<br>\$A'000 |
|----------------------------------------------------------------------------------------------------------|----------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2                                   | -                          |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3                       | -                          |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 |                            |

| 8. Financing facilities available<br><i>Add notes as necessary for an understanding of the position</i>                                                                                                                                                                                    | Total facility<br>amount at quarter<br>end<br>\$A'000 | Amount drawn at<br>quarter end<br>\$A'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------|
| 8.1 Loan facilities                                                                                                                                                                                                                                                                        | 1,500                                                 | 1,500                                     |
| 8.2 Credit standby arrangements                                                                                                                                                                                                                                                            | -                                                     | -                                         |
| 8.3 Other (please specify)                                                                                                                                                                                                                                                                 | -                                                     | -                                         |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. |                                                       |                                           |

Convertible loan note issued of 1,500,000 Notes with a face value of \$1.00 per Note with a simple interest at 10% per annum. Notes may be converted on or prior to the Maturity Date of 22 October 2021.

| 9. Estimated cash outflows for next quarter   | \$A'000        |
|-----------------------------------------------|----------------|
| 9.1 Research and development                  | (20)           |
| 9.2 Product manufacturing and operating costs | (150)          |
| 9.3 Advertising and marketing                 | (30)           |
| 9.4 Leased assets                             | (100)          |
| 9.5 Staff costs                               | (1,000)        |
| 9.6 Administration and corporate costs        | (350)          |
| 9.7 Proceeds from issues of shares            | -              |
| 9.8 Other (provide details if material)       | -              |
| <b>9.9 Total estimated cash outflows</b>      | <b>(1,650)</b> |

| 10.  | Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above) | Acquisitions | Disposals |
|------|---------------------------------------------------------------------------------|--------------|-----------|
| 10.1 | Name of entity                                                                  |              |           |
| 10.2 | Place of incorporation or registration                                          |              |           |
| 10.3 | Consideration for acquisition or disposal                                       |              |           |
| 10.4 | Total net assets                                                                |              |           |
| 10.5 | Nature of business                                                              |              |           |

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: x  .....  
(Executive Chairman)

Date: 31<sup>st</sup> January 2019

Print name: John Houston

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.