YPB Group Limited

ACN 108 649 421

Annual Report

31 December 2017

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Contents

Executive Chairman and CEO's Report to Shareholders

Despite a reduced operating loss on the prior year, 2017 was very disappointing for YPB shareholders. The company's development is at least a year behind plan as some aspects of the business went into reverse and others failed to advance due to poor management. In H1 2017, as the lack of progress and the then CEO's lack of recognition of numerous problems became increasingly clear, the Board and I concluded that my resumption of operational leadership was both necessary and optimal. Consequently, I resumed the CEO's role in July 2017.

Operational review and renew post July 2017
I am pleased to report that, even though not outwardly evident, we have made major strides since July in getting back on track. The key actions taken over the past nine months have been:

- Completing the Board's cost reduction programme instituted in early 2017 with $4.5m annualised cut from overhead by Q3 2017, which amounts to a 40% reduction. This has been achieved without the loss of operational capability.
- Refining our focus to the Australia - South-East Asia - South Asia -China corridor.
- Removing a layer of non-performing senior management.
- Re-empowering the top quality remaining senior managers to drive the business at full speed.
- Filling key personnel gaps with quality new hires.
- Reviewing and refining our product offer and sales strategy to shorten sales cycles and expand our addressable market.
- Reviewing and stabilising our technology base and its direction.
- Reviving important partner and client relationships that had been neglected.
- Enhancing our market access in several geographies via new, highly valuable partnerships.
- Completing the acquisition of the next-generation forensic, mass market authentication technology Motif Micro, which has the potential to be a major value creator for YPB.

The outcome of this programme is that the company is in 2018 the most match-fit it has ever been. We have a high-quality, enthusiastic and cohesive management team. Our unique technologies are in good shape with clear development roadmaps. Our product offer and sales strategies are sharp and likely to lead to faster revenue generation.

Highly valuable new partnerships – AliHealth and Australian Made

The first external evidence of our recent progress is the two prime partnerships announced in late March 2018, AliHealth (a subsidiary of Alibaba Group) in China and Australian Made. These are the two most important relationships in the company's history.

YPB is the first commercial organisation to be appointed an Independent Software Vendor to sell AliHealth's product traceability platform in China. This was driven by our strategies and views of the future fitting very well with those of AliHealth.

Operating in China gives us technology and commercial knowledge that is valuable ex-China but as a small, foreign company we have struggled with Chinese market access despite having arguably the most advanced, officially-certified anti-counterfeit technology in China. We are optimistic that representing AliHealth will open previously closed doors and allow us to generate revenue from the AliHealth platform and, more importantly, from our own anti-counterfeit solutions.

As we prove our offer and sales skills in the form of revenue growth, we intend to scale the China business as rapidly as possible in a self-funding mode. Obviously, the size of the opportunity in China is exceptional and representing AliHealth offers the greatest opportunity we have had to create a robustly profitable business there. We have re-empowered our first-rate team in China and are hopeful of early success.

The new partnership with Australian Made is an excellent opportunity for YPB in terms of both market access and in creating a readily scalable sales model in Australia. The Australian market has been a minor priority for us until recently as opportunities here have been limited due to the negligible incidence and awareness of counterfeiting. But the recent success of high profile exporters to China has seen much greater interest in pursuing markets in Asia which in turn has led to much greater recognition of the need for counterfeit protection. Further, our solutions allow brands to convert their investment in packaging into a low cost, highly effective tool for knowing and directly connecting with otherwise invisible and remote consumers in export markets.

Australian Made will allow us to offer our full Anti-Counterfeit and Consumer Connection solution suite to its 2700+ licensees who have 20,000+ products (skus). Our solutions will be particularly relevant to exporters targeting high counterfeit risk markets in Asia, most notably China. We intend to access and cost-effectively serve many of these licensees via an online portal embedded in the Australian made website. This sales model has been in development for several months and we are optimistic that it can drive sales growth in Australia and scale cost effectively.

YPB tech the entry ticket to Asian riches

It is likely we are only in the earliest stages of the integration of Australian consumer goods, particularly food, wellness etc., into the everyday lives of the ballooning Asian middle class. Our strategy is to become mission-critical partners to as many ANZ exporters to Asia as possible and we will be significantly increasing our efforts in Australia and New Zealand. For our shareholders that implies that YPB can become one of the better direct exposures on the ASX to the growth of the Pan-Asian middle class.

This new opportunity in Australia reflects the confluence of technology, demographic and economic trends that are mutually-reinforcing for our strategy and product suite. These important trends are:

- The dominance of the QR code as the key consumer interface for e-commerce in China and ultimately the rest of Asia:
  - The QR code is a 2-dimensional barcode that can be scanned by smartphone as a point of connection or as a pathway for an array of e-commerce activities from buying online to paying fines and taxes.
  - A majority of online actions in China are initiated via QR codes and they are now integral to most aspects of daily commercial life.

- The need to prove product integrity and provenance (traceability) throughout the supply chain:
  - In its most robust form this requires serialisation or item-level unique identification codes. This is most conveniently enacted for consumer goods via QR codes. YPB CONNECT and AliHealth's platform both have serialisation capabilities via QR code. Most QR codes on products at present are not serialised.
  - Serialisation is a sound anti-counterfeit tool as well.

- The growth of the Pan-Asian middle class to over 800m with greater consumer interest in clean green ANZ products and greater interest from an array of exporters from ANZ in capturing some of the riches those huge markets offer.

- Together the above factors mean that any consumer goods brand that is not using QR codes as part of its strategy in China and Asia is severely handicapped. To maximise their opportunity and effectiveness, exporters from ANZ must employ serialised QR codes on their products.

- But QR codes have a major weakness in that are very simply copied and faked. QR codes therefore need physical protection against counterfeit:
  - YPB has an array of physical protective measures for QR codes under the PROTECTcode range.
  - The most advanced of these, to be released in H2 2018, is the smartphone readable protection of the recently acquired Motif Micro technology.

Together all these factors mean that YPB can supply brands with the almost mandatory tickets for entry into a highly valuable and rapidly growing game. That game is the growth of consumption by the Pan-Asian middle class who increasingly demand products of high integrity with strong counterfeit protection from reputable and trustworthy brands via demonstrably secure and reliable supply chains.

We intend to partner with brands selling to those consumers both in-country throughout China, South-East Asia and South Asia, and with exporters from Australia and New Zealand.

Further, we have software, YPB CONNECT and AliHealth in China, to enable smartphone scanning of the QR code to become a key marketing asset to connect the brand and the consumer in a direct and personal relationship.

If brands adopt our technologies to allow their consumers to scan protected, serialised QR codes then effectively the brands *scan and win*.

Motif Micro annuity licence income potential

As just noted, the Motif Micro acquisition is a critical element in this strategy. But Motif Micro is such a revolutionary technology that we have early indications of the possibility of monetising its potential via a range of licencing arrangements in a number of geographies.

Motif Micro's key commercial quality is that it offers anti-counterfeit's holy grail, namely - mass market, consumer level, unfakeable, invisible, high volume, low cost physical marking of goods authenticated by smartphone. The ability of the consumer to confirm product authenticity via a simple ubiquitous technology has almost unlimited application.

We are in early engagement with a number of parties interested in licencing Motif Micro for specific industries in specific geographies and the opportunity is such that we now have a resource dedicated to pursuing licencing. Should we succeed, Motif Micro offers the prospect of a rich annuity income stream flowing to YPB from high volume users in high value industries.

Pipeline review

We have repeatedly advised the market of a new business pipeline with an estimated annual revenue value of $120m. But conversion of that pipeline has been poor and frustratingly slow. Consequently, we are scrutinising the pipeline with even more stringent inclusion criteria and will advise the market post that review. We expect to release the review in May as a number of important client meetings in April will better inform our assessment of the likelihood of successful conclusion.

Part of the pipeline clearly in doubt is comprised of Mexican projects. As advised in our Appendix 4E on February 28th, we are reviewing our strategy in Mexico but have terminated the Joint Venture and consulting agreement with Affrymx LLC due to poor performance and high cost. The opportunity in Mexico is still significant and we have credible groups keen to partner with us for high value contracts but that can only happen if YPB has minimal time and management involvement as our operational focus is the Australia – China corridor and relevant countries en-route.

Despite these uncertainties, we can confidently state that the pipeline is likely to remain large, that a still relatively modest conversion rate will allow us to achieve robust profitability and that there is high probability of a number of valuable names concluding contracts by mid-year.

Chapter of high equity issuance closing

Due to the business being behind schedule in its development we have been dependent on external equity to fund operations. Combined with a weak stock price this has seen the regrettable but unavoidable dilution of existing shareholders and I am grateful to all our shareholders for their patience and ongoing support.

As at end March 2018, however, we expect that our need for future external equity will be minimal.

A change in fortune ahead in 2018

In summary, our past performance has been unacceptably poor and although we have previously stated that we were on the cusp of great improvement only to fall well short, greater confidence for the balance of 2018 is justified by the following:

- We have our best-ever team of proven players.
- Our technology is robust, the most advanced it has ever been and commercially valuable to our clients.
- Our next generation technologies will have mass market application and there are meaningful prospects, albeit as yet embryonic, of monetising our investment in Motif Micro to create annuity revenues via licencing.
- Our first-class new partnerships will greatly help with market access.
- Our sales personnel and strategies are far sharper than they have ever been.
- Our long-standing pipeline should deliver meaningful revenue soon.
- We anticipate that our protracted reliance on new equity is ending and that there will be negligible further shareholder dilution.

The foregoing support the expectation of greater market penetration, more rapid customer conversion and ultimately significant revenue growth. Together with prudent cost management, our profit forecasts are well supported as is the expectation of the restoration of shareholder value as 2018 progresses.

Our purpose is to enhance the trust and connection between brands and their consumers. Given we have powerful macro tailwinds in very large markets behinds us, if we deliver on-purpose for our clients we will not only build a better world but we will create substantial long-term wealth for our shareholders. That is my entire focus.

John Houston
Executive Chairman and CEO

Directors' Report

The directors present their report and the financial statements of YPB Group Limited, the "Company") and its controlled entities (the "Consolidated Entity") for the company's the financial year ended of 31 December 2017.

1. Directors & Secretary

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

	Date Appointed	***Date Ceased***
Executive Chairman		
John Houston	31 July 2014	
Executive Director		
Robert Whitton	3 August 2012	31 May 2017
Non-Executive Directors		
Su (George) Su	31 July 2014	
Ronald Langley	28 April 2015	31 May 2017
Gerard Eakin	4 March 2016	

Mr Robert Whitton was the Company Secretary for the year under review.

2. Principal Activities

The principal activity of the Company during the financial year was as a sales, marketing and developer of anti-counterfeiting, anti-theft, product authentication and consumer engagement solutions to brands owners globally.

3. Review of Operations

Please refer to the Executive Chairman's report on page 2 of this Annual Report.

4. Financial Results

YPB had an unacceptable and disappointing 2017 despite a reduced operating loss compared with 2016. Revenues actually fell when they were budgeted to grow. The CEO departed in early July as a consequence. Our only financial success of 2017 was a 40% reduction in overhead costs as detailed below.

The reported loss increased from $16.4m in 2016 to $20.3m in 2017. Please note that in the Appendix 4E of February 2018 the total loss for 2017 was previously reported as $11.2m. The $9.1m difference is due to a post-4E review of assets that led to an $8.1m impairment of intellectual property, due to those assets not yet realising the revenue expected, an $0.8m write-off of plant and equipment related to the Mexican JV and other adjustments of $0.2m. These adjustments are entirely non-cash and the intellectual property impairments do not reflect Directors' assessment of future earnings power of those assets, rather financial reporting prudence and minimisation of any future impact of the financial statements.

More relevant than reported profit is operating profit which is unaffected by non-cash items and reflective of business performance. The net operating loss improved by 20% down from $11.6m to $9.3m.

Further, the net operating loss in H2 2017 of $3.5m was 40% below the $5.9m net operating loss of H1 2017.

Most importantly, net cash consumed by operations of $7.8m was 20% less than the $9.7m of 2016. The net cash consumed in H2 2017 of $3.2m was 32% below the $4.6m of H1 2017.

While being in loss is unacceptable, the H2 2017 improvement is indicative of the trajectory of the business. Cost reduction was the primary driver of improvement.

Revenues were extremely disappointing in 2017 falling by 33% from $3.0m to $2.0m. This was primarily driven by much weaker US Print Solutions which resulted in that business being closed mid-year. Sales in China were also very weak due to strategic errors by the departed CEO.

The biggest revenue disappointment, however, was the failure to convert a very large new business pipeline into sales and inordinate lags between contract closure and first sales. Nevertheless, the first hint of improvement was seen in H2 2017 with revenue of $1.2m, up 41% on H1 and this trend is expected to accelerate in 2018, particularly in H2 2018. Existing customers are increasing volumes and new customers are closer to contract closure and revenue start up.

The cost reduction programme initiated by the Board commencing February 2017 was achieved on time and on budget. The targeted annualised 40% cost out of $4.5m was largely reached by August 2017. That resulted in H2 2017 operating costs (ex COGS) being $2.1m or 30% lower than H1. This figure would have been lower but for redundancy and other restructuring costs incurred in H2. The first entire half year benefit of the cost reduction will be felt in H1 2018.

The two biggest contributors to the cost reduction were lower headcount and fewer high-cost personnel together with a reduced R&D expense following the conclusion of the YPB CONNECT software rebuild and upgrade.

The primary balance sheet item worthy of comment is the $6.8m in current liabilities as at year end 2017. Of this amount, the Motif Micro acquisition represented $5.3m and it was fully settled in January 2018. The remaining $1.5m balance was normal trade creditors and accruals.

The net assets of YPB were $1,138,000 as at 31 December 2017 (2016: $13,509,000). Cash at balance date was $845,000 (2016: $2,715,000).

5. Significant Changes in State of Affairs

- 22 December 2017 Unilever Pakistan signs 5 year contract with YPB
- 6 December 2017 E-commerce capabilities strengthened with new CFO
- 29 November 2017 Unilever Pakistan adopts YPB's CONNECT platform
- 28 November 2017 Agreement with Cellmid to access Chinese health market
- 3 November 2017 YPB and Monash in Rail collaboration
- 4 October 2017 $3.425 m Placement Listing Rule 3.10.5A disclosure
- 15 September 2017 Rights secured to generational leap in authentication tech
- 12 September 2017 YPB to further protect Thai passports
- 8 September 2017 YPB signs with iSynergi an Alibaba Global Service Partner
- 7 September 2017 Share placement raises $2.757m
- 7 August 2017 YPB provides retail anti-theft consultancy to BWS
- 4 August 2017 Lucas' Papaw Remedies to PROTECT its iconic product with YPB
- 10 July 2017 YPB wins Mexican National Lottery print contract
- 4 July 2017 CEO resignation and operational leadership change
- 28 June 2017 YPB issues updated profit expectations
- 16 June 2017 Presentation to 121 Tech Investment Summit Hong Kong
- 1 June 2017 YPB signs 3-year contract with global FMCG tube manufacturer
- 3 May 2017 US$10m funding facility secured
- 3 March 2017 YPB Group signs MOU with new channel partner in China
- 15 March 2017 USA patent for smartphone connectable scanner granted
- 13 March 2017 YPB Group signs MOU with Le Mac Australia
- 9 March 2017 YPB Group receives order from Bank of Thailand
- 13 January 2017 Thai Govt awards YPB Board of Investment Status
- 9 January 2017 First military contract in Mexico

6. Future Developments, Prospects and Business Strategies

See Executive Chairman's and CEO's Report on page 5.

7. Dividends Paid

No dividends have been paid or been recommended for payment in respect of the financial year ended 31 December 2017.

8. Events Subsequent to Balance Date

- On 8 January 2018, the Group entered into a trading halt and subsequently a voluntary suspension on 10 January 2018.

- On 22 January 2018, $5m was raised via a placement to sophisticated and institutional investors. Proceeds from this placement were used to settle Motif Micro related debt (see Note 12), a partial repayment of the Bracknor convertible loan facility (see Note 13) and the debt owing on Ronald Langley's loan facility (see Note 14).
- On 22 March 2018, a contract with Alibaba Health (Hong Kong) Technology Company Limited ('AliHealth'), a subsidiary of Alibaba Group, was signed whereby YPB Group Ltd has been appointed as an Independent Software Vendor (ISV) of the AliHealth supply chain traceability platform for the China market.
- On 26 March 2018, the Group signed a MOU with the Australian Made Campaign to offer its full product suite to Australian Made licensees.
- On 26 March 2018, the Group resumed trading subsequent to a successful additional capital raise of $1.087m.

9. Directors' & Secretary Experience and Special Responsibilities

John Houston
Executive Chairman
Appointed 31 July 2014

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

John was the inaugural CEO from pre-listing of the Company until 3 March 2016, and resumed as CEO from 2 July 2017.

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

Other current public company directorships: Nil

George (Su) Su
Non-Executive Director
Appointed 31 July 2014

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

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

Other public company directorships held within the last 3 years: Carbon Energy Limited (ASX:CNX) & Oriental Technologies Investment Limited (ASX: OTI)

Gerard Eakin
Non-Executive Director
Appointed 4 March 2016

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

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

Other current public company directorships Nil.

Robert Whitton
Executive Director (Resigned 31 May 2017)
Appointed 3 August 2012
Company Secretary

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

He acted as Chief Financial Officer from 1 March 2015 to 31 July 2016, as Managing Director ANZ between 1 August 2016 and 1 February 2017 and remains as Group Company Secretary having been appointed on 31 July 2014.

Ronald Langley
Non-Executive Director (Resigned 31 May 2017)
Appointed 28 April 2015

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

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

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

10. Meetings of Directors

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

	Board Meetings	
	Number eligible to attend	**Number Attended**
John Houston	5	5
Gerard Eakin	5	5
George Su	5	5
Robert Whitton	3	3
Ronald Langley	3	2

11. Remuneration Report (Audited)

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

Remuneration Policy

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

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

— The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Board. All executives receive an agreed mix of fixed salary (which is based on factors such as experience and level of responsibilities), superannuation, fringe benefits and an annual cash performance incentive. The Company's Remuneration Committee will review and make recommendations to the Board in respect of executive packages on an annual basis. Reference will be made to the Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

— The performance of executives is measured against criteria agreed annually with each executive. Performance criteria include factors relating to the responsibilities of each position as well as company-wide factors such as the forecast growth of the Entity's profits. All bonuses are linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and can recommend changes to the committee's recommendations. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

— The executive directors and executives receive a superannuation guarantee contribution required by the government and do not receive any other retirement benefits.

— All remuneration paid to directors and executives is valued at the cost to the Company and expensed. There are no share or options schemes as part of directors' or executive remuneration.

— The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability.

— The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

— Where non-executive directors provide additional services to the Company, this must be approved in advance by the remuneration committee chair.

Performance Based Remuneration

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

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

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

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

There were no KPIs set for the period under review being the twelve months ended 31 December 2017 and as a result no performance payments were paid or are payable.

Details of Remuneration for the Period Ended 31 December 2017

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

	Short-term Benefits		**Post Employment Benefits**	**Equity-based payments**	**Total**
	Fees or Remuner-ation	**Non-Monetary Benefits**	**Super-annuation**	**Shares**	
12 months to 31 December 2017	**$**	**$**	**$**	**$**	**$**
John Houston (Executive Chairman)	293,389	34,978	-	-	328,367
Jens Michel (Chief Executive Officer)[1]	188,906	-	-	-	188,906
Robert Whitton (Company Secretary)	200,000	-	-	-	200,000
George (Su) Su (Non-Executive Director)	40,000	-	-	-	40,000
Ronald Langley (Non-Executive Director)[2]	16,667	-	-	-	16,667
Gerard Eakin (Non-Executive Director)	200,000	-	-	-	200,000
Gregory O'Shea (Chief Operating Officer)	289,384	-	-	-	289,384
Jason York (Chief Financial Officer)[3]	162,402	-	11,479	-	173,881
	1,390,748	34,978	11,479	-	1,437,205

Notes:
1. CEO until 2 July 2017
2. Ceased 31 May 2017
3. CFO until 30 June 2017

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

Additional disclosures relating to key management personnel

Shareholdings

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals / Other	Balance at the end of the year
Group KMP					
John Houston (Exe Chair)	60,495,792	-	69,823,787	-	130,319,579
Robert Whitton (Co Sec)	352,273	-	-	-	352,273
George (Su) Su (NED)	5,623,989	-	-	-	5,623,989
Ronald Langley (NED)	3,400,000	-	23,015,390	-	26,415,390
Jens Michel (CEO)	1,405,683	-	-	(1,000,000)	405,683
Gerard Eakin (NED)	-	-	2,500,000	-	2,500,000
Gregory O'Shea (COO)	-	-	-	-	-
Jason York (CFO)	-	-	-	-	-
	71,277,737	-	95,339,177	(1,000,000)	165,616,914

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals / Other[a]	Balance at the end of the year
Group KMP					
John Houston (Exe Chair)	15,089,413[a]	-	-	(15,089,413)	-
Robert Whitton (MD – ANZ)	56,250[a]	-	-	(56,250)	-
George (Su) Su (NED)	1,374,179[a]	-	-	(1,374,179)	-
Ronald Langley (NED)	3,333,333[a]	-	-	(3,333,333)	-
Jens Michel (CEO)	3,000,000	-	-	-	3,000,000
Gerard Eakin (NED)	1,000,000	-	-	-	1,000,000
Gregory O'Shea (COO)	-	-	-	-	-
Jason York (CFO)	-	-	-	-	-
	23,853,175		-	(19,853,175)	4,000,000

a. *These the options lapsed during the year.*

Other Equity-related KMP Transactions

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

Employment Contracts of Directors and Senior Executives.

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

— none of the contracts have fixed terms

— resignation period or termination by the Group is between one and six months' notice

— termination or redundancy payments by the Group are not specifically provided for in the contracts, however, will be payable in accordance with relevant Federal or State legislation, and

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

The contract which was renewed a further 3 year period after the expiration of the first 3 year period which commenced from the date of the completion of the Share Sale and Purchase Agreement.

— Resignation period or termination by the Group is twelve months' notice.

— Termination or redundancy payments by the Group are not specifically provided for in the contracts, however, will be payable in accordance with the relevant Federal or state legislation; and

— No termination payments are payable in respect of resignation or dismissal for serious misconduct. In the instance of serious misconduct the Group can terminate employment at any time.

12. Indemnification of Directors, Officers and Auditor

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

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

13. Insurance Premiums

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

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

14. Non-audit Services

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

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

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

15. Auditor's Independence Declaration

The auditor's independence declaration for the period ended 31 December 2017 will be included on page 16 of this Annual Report.

16. Proceedings on Behalf of Company

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

17. Rounding of Amounts

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

18. Total Options on Issue

At the date of this report, there are 72,534,000 options over unissued shares in YPB Group Ltd as set out below:

Number	Exercise Price	Expiry Date
3,000,000	$0.50	28 February 2019
3,000,000	$0.75	28 February 2019
1,000,000	$0.50	4 March 2020
200,000	$0.50	1 August 2018
200,000	$0.35	1 August 2018
280,000	$0.50	27 October 2018
280,000	$0.35	27 October 2018
114,000	$0.50	27 April 2018
114,000	$0.75	27 April 2018
16,000,000	$0.35	12 December 2026
16,000,000	$0.45	12 December 2026
16,000,000	$0.55	12 December 2026
16,000,000	$0.65	12 December 2026
173,000	$0.35	24 March 2019
173,000	$0.50	24 March 2019
72,534,000		

Signed in accordance with a resolution of the Board of Directors

John Houston
Executive Chairman

Dated this 29th day of March 2018

HALL CHADWICK (NSW)
Chartered Accountants and Business Advisers

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Australia

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YPB GROUP LIMITED
ACN 108 649 421
AND ITS CONTROLLED ENTITIES

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 year ended 31 December 2017 there have been no contraventions of:

(i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Hall Chadwick

Hall Chadwick
Level 40, 2 Park Street
Sydney NSW 2000

GWebb

Graham Webb
Partner
Dated: 29 March 2018

Financial Report

31 December 2017

YPB Group Ltd
Consolidated Statement of profit or loss and other comprehensive income
For the year ended 31 December 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Revenue	3	1,998	2,982
Expenses			
Production costs		(1,007)	(1,823)
Consulting fees		(1,583)	(1,068)
Depreciation and amortisation expense		(967)	(970)
Directors' fees		(142)	(171)
Employee benefits expense		(3,219)	(5,126)
Finance costs		(387)	(198)
Rental expenses		(314)	(409)
Research and development		(1,023)	(1,570)
Marketing		(79)	(561)
Travelling expense		(607)	(1,253)
Options expense		(1)	(202)
Share-based payments		(179)	(515)
Regulatory expenses		(188)	(234)
Professional fees		(418)	(316)
Other expenses		(1,452)	(851)
Impairment of plant and equipment		(830)	-
Impairment of goodwill and other intangible assets		(8,104)	(3,267)
Diminution in fair value of financial assets		(1,775)	(1,060)
Loss before income tax benefit	4	(20,277)	(16,612)
Income tax benefit	5	16	171
Loss after income tax benefit for the year attributable to the owners of YPB Group Ltd		(20,261)	(16,441)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(250)	(225)
Other comprehensive loss for the year, net of tax		(250)	(225)
Total comprehensive loss for the year attributable to the owners of YPB Group Ltd		(20,511)	(16,666)
		Cents	**Cents**
Basic earnings per share	26	(8.16)	(8.76)

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

YPB Group Ltd
Consolidated statement of financial position
As at 31 December 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Assets			
Current assets			
Cash and cash equivalents	6	845	2,715
Trade and other receivables	7	508	729
Inventories	8	333	348
Financial assets	9	-	2,250
Total current assets		1,686	6,042
Non-current assets			
Plant and equipment	10	197	588
Intangibles	11	9,115	12,081
Total non-current assets		9,312	12,669
Total assets		10,998	18,711
Liabilities			
Current liabilities			
Trade and other payables	12	6,782	2,177
Deferred revenue		240	-
Financial liabilities	13	1,836	-
Borrowings	14	1,002	-
Total current liabilities		9,860	2,177
Non-current liabilities			
Borrowings	14	-	3,024
Other liabilities		-	1
Total non-current liabilities		-	3,025
Total liabilities		9,860	5,202
Net assets		1,138	13,509
Equity			
Issued capital	15	49,124	41,317
Reserves	16	3,740	4,051
Accumulated losses		(51,726)	(31,859)
Total equity		1,138	13,509

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

YPB Group Ltd
Consolidated statement of changes in equity
For the year ended 31 December 2017

Consolidated	Issued capital $'000	Issued options $'000	Foreign currency translation Reserve $'000	Warrant Options Reserve $'000	Accumulated losses $'000	Share based payment reserve $'000	Total equity $'000
Balance at 1 January 2016	33,606	393	2,566	-	(15,418)	97	21,244
Loss after income tax benefit for the year	-	-	-	-	(16,441)	-	(16,441)
Other comprehensive loss for the year, net of tax	-	-	(225)	-	-	-	(225)
Total comprehensive loss for the year	-	-	(225)	-	(16,441)	-	(16,666)
Transactions with owners in their capacity as owners:							
Shares issued, net of transaction costs	7,449	-	-	-	-	-	7,449
Options exercised during the year	2	-	-	-	-	-	2
Shares granted from consulting agreement	260	-	-	-	-	-	260
Options granted during the year	-	302	-	-	-	-	302
Share based payments	-	-	-	-	-	918	918
Balance at 31 December 2016	41,317	695	2,341	-	(31,859)	1,015	13,509

Consolidated	Issued capital $'000	Issued options $'000	Foreign currency translation reserve $'000	Warrant Options Reserve $'000	Accumulated losses $'000	Share based payment reserve $'000	Total equity $'000
Balance at 1 January 2017	41,317	695	2,341	-	(31,859)	1,015	13,509
Loss after income tax benefit for the year	-	-	-	-	(20,261)	-	(20,261)
Other comprehensive loss for the year, net of tax	-	-	(250)	-	-	-	(250)
Total comprehensive loss for the year	-	-	(250)	-	(20,261)	-	(20,511)
Transactions with owners in their capacity as owners:							
Shares issued, net of transaction costs	7,807	-	-	-	-	-	7,807
Options lapsed during the year	-	(394)	-	-	394	-	-
Options granted during the year	-	1	-	-	-	-	1
Share based payments	-	-	-	-	-	76	76
Warrant options issued	-	-	-	256	-	-	256
Balance at 31 December 2017	49,124	302	2,091	256	(51,726)	1,091	1,138

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

YPB Group Ltd
Consolidated statement of cash flows
For the year ended 31 December 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers		2,259	3,262
Payments to suppliers and employees		(9,656)	(12,755)
Interest received		7	37
Finance costs		(387)	(198)
Net cash used in operating activities	25	(7,777)	(9,654)
Cash flows from investing activities			
Payments for property, plant and equipment		(25)	(353)
Payments for intangibles		(1,038)	-
Net cash used in investing activities		(1,063)	(353)
Cash flows from financing activities			
Proceeds from issue of shares (net of costs)		3,237	8,214
Proceeds from related party loans		1,002	-
Proceeds from issue of options		1	-
Repayment of loan from related party		-	(8)
Settlement of deferred share consideration		475	1,690
Proceeds from issue of convertible notes		2,255	-
Repayment of borrowings		-	(51)
Net cash from financing activities		6,970	9,845
Net decrease in cash and cash equivalents		(1,870)	(162)
Cash and cash equivalents at the beginning of the financial year		2,715	2,877
Cash and cash equivalents at the end of the financial year	6	845	2,715

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

Note 1. Significant accounting policies

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

The separate financial statements of the parent entity, YPB Group Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 29 March 2018 by the directors of the company.

Basis of preparation

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

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

Going concern

The Group incurred an operating loss after income tax of $20,261,000 and had a deficiency of operating cash flows of $7,777,000 for the year ending 31 December 2017. As at year end the Group has cash and cash equivalents of $845,000, and a deficiency of net current assets of $8,174,000.

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

- Confidence in achieving forecasted sales growth - the size of the opportunity pipeline ($46.2m) is well ahead of the revenues necessary to achieve the company’s profit expectations;

- The Group has implemented cost containment controls to ensure its operational cost base does not exceed annualised cost of $6.5m in comparison to previous years;

- The Group are expecting to fully settle the Bracknor facility within FY2018;

- Reliance on further capital raising activities, of which the $5m and $1.087m has been raised post year end.

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

Principles of consolidation

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

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill on acquisition of subsidiaries is included in intangible assets.

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

Depreciation

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

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

Plant and equipment	10% - 25%

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

Note 1. Significant accounting policies (continued)

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Financial Instruments

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

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

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

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

Intangibles

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

Note 1. Significant accounting policies (continued)

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

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

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

Goodwill
Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:
- the consideration transferred;
- any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- the acquisition date fair value of any previously held equity interest;

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

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

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

Goodwill on acquisition of subsidiaries is included in intangible assets.

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

Foreign Currency Transactions and Balances

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

Employee Benefits

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

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

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

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

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

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

Interest revenue is recognised using the effective interest method.

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

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

Key estimates

Intellectual property and customer relationships
The Group assesses the carrying value of intellectual property at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. The Directors have assessed the carrying value of intellectual property at 31 December 2017 and determined that an impairment of $8,104,000 is required.

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

Note 1. Significant accounting policies (continued)

Financial assets ('Lanstead')
In accordance with the accounting policy stated in Note 1, the Group tracks the price differential between the actual trading share price and the contractually agreed reference share price to determine the fair value of the financial asset at the reporting date. Any fair value loss is recognised as a diminution in fair value of financial assets. As at 31 December 2017, management does not anticipate further funding to be forthcoming from this facility and has subsequently recognised a diminution in the fair value.

Patent licence rights
The Group acquired the patented licence rights from Motif Micro in an arm's length transaction. The Group intends to use these patented licence rights to generate revenue via licencing arrangements to third parties across various industries and geographical locations.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 31 December 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

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

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. At present, the Directors do not anticipate that the adoption of AASB 15 will have a material impact on the revenue streams currently generated by the Group. In relation to the new revenue streams expected to be generated from the Motif Micro licencing arrangements, the Group expects to be fully compliant with AASB 15.

Note 1. Significant accounting policies (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group expects to apply this standard using the modified retrospective method, but notes that the impact on current leases is expected to be minimal given that a number of the leases are due for renewal in FY2018.

Note 2. Operating segments

Identification of reportable operating segments

The Consolidated Entity is organised into operating segments as outlined below:

Management determines operating segments based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the consolidated financial statements.

Types of products and services

For the year ended 31 December 2017, management considers the company to offer its client base a complete end-to-end service and product offering, hence considering its main operations to be represent by one business segment apart from a specialised counterfeit printing operation.

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

- Covert forensic products which are invisible particles (‘tracers’) fused into a product or packaging during or after the manufacturing process, and are detectable using YPB’s proprietary scanner.
- Forensic laboratory services for the examination of counterfeit products.
- Security consulting services provided to governments, corporations and intellectual property owners for the deterrence of counterfeiting, grey markets, product diversions and fraud.
- Retail anti-theft and labelling solutions effective for mainstream retailers, boutiques and exporters to protect against theft.

The specialised printing operation provides its customers with a dedicated product range, including:
- Anti-counterfeiting solutions to brands and resellers in the areas of packaging and labelling.

Note 2. Operating segments (continued)

Consolidated - 2017	Print Solutions $'000	Other segments $'000	Total $'000
Revenue			
Sales to external customers	223	1,768	1,991
Interest revenue	-	7	7
Total revenue	223	1,775	1,998
EBITDA	(256)	(7,958)	(8,214)
Depreciation and amortisation	-	(967)	(967)
Diminution in fair value of financial assets	-	(1,775)	(1,775)
Impairment of assets	-	(8,104)	(8,104)
Impairment of plant and equipment	-	(830)	(830)
Finance costs	-	(387)	(387)
Loss before income tax benefit	(256)	(20,021)	(20,277)
Income tax benefit			16
Loss after income tax benefit			(20,261)
Assets			
Segment assets	2	10,996	10,998
Total assets			10,998
Liabilities			
Segment liabilities	31	9,829	9,860
Total liabilities			9,860

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

Note 2. Operating segments (continued)

Geographical information

	Sales to external customers		Geographical assets	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Australia	1,013	1,271	716	6,220
Peoples Republic of China and HK	39	299	2,959	11,162
Thailand	463	331	400	772
United States of America	483	1,081	6,923	557
	1,998	2,982	10,998	18,711

Note 3. Revenue

	Consolidated	
	2017 $'000	2016 $'000
Revenue		
Sale of goods	1,991	2,945
Other revenue		
Interest	7	37
Revenue	1,998	2,982

Note 4. Loss for the period

The loss for the period includes the following expenses:

	Consolidated	
	2017 $'000	2016 $'000
Finance costs	387	198
Research and development costs	1,023	1,570
Depreciation and amortisation	967	970
Impairment of plant and equipment	830	-
Impairment of goodwill & other intangible assets	8,104	3,267
Rental expense on operating leases - minimum lease payments	314	409
Diminution in fair value of financial assets	1,775	1,060
	13,400	7,474

Note 5. Income tax benefit

	Consolidated 2017 $'000	Consolidated 2016 $'000
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(20,277)	(16,612)
Tax at the statutory tax rate of 30%	(6,083)	(4,984)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
- offshore expenses not deductible	218	294
- non-allowable expenses	3,310	1,510
- share options expensed during the year	-	61
- share based payments expensed during the year	54	155
- tax losses not recognised	2,356	2,379
	(145)	(584)
Difference in overseas tax rates	129	408
- temporary differences not recognised	-	5
Income tax benefit	(16)	(171)
Deferred tax assets have not been recognised in respect of the following items:		
- deductible temporary differences	78	150
- tax losses	5,353	2,994
	5,451	3,144

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

Note 6. Current assets - cash and cash equivalents

	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash on hand	2	4
Cash at bank	843	2,711
	845	2,715

Note 7. Current assets - trade and other receivables

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade receivables	339	348
Less: allowance for doubtful debts	(25)	-
	314	348
Sundry receivables	194	381
	508	729

Note 8. Current assets - inventories

	Consolidated	
	2017	2016
	$'000	$'000
Finished goods - at cost	333	348

Note 9. Current assets - financial assets

	Consolidated	
	2017	2016
	$'000	$'000
Receivable from Lanstead	-	2,250

The fair value of the Lanstead receivable as at 31 December 2017 has been estimated as follows:

	Share price $	Number of shares outstanding	Fair value $
Value recognised on inception	0.26	19,231	5,000
Consideration received up to 31 December 2016		(10,150)	(1,690)
Loss on diminution in fair value of the Lanstead receivable		-	(1,060)
Value of the Lanstead receivable at 31 December 2016		9,081	2,250
Consideration received up to 31 December 2017		(9,081)	(475)
Loss on diminution in fair value of the Lanstead receivable		-	(1,775)
Value of the Lanstead receivable at 31 December 2017		-	-

The diminution in fair value, as recognised during the year, is a result of the actual share price of the company trading below the reference share price agreed on at the time of the underlying contract. Management does not anticipate further funding to be forthcoming from this facility and has subsequently recognised a diminution for the remaining receivable.

Note 10. Non-current assets - plant and equipment

	Consolidated	
	2017	2016
	$'000	$'000
Plant and equipment - at cost	1,264	750
Less: Accumulated depreciation	(237)	(162)
Less: Impairment of plant and equipment	(830)	-
	197	588

Note 10. Non-current assets - plant and equipment (continued)

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

Consolidated	Plant and equipment $'000	Total $'000
Balance at 1 January 2016	313	313
Additions	353	353
Exchange differences	2	2
Depreciation expense	(80)	(80)
Balance at 31 December 2016	588	588
Additions	515	515
Exchange differences	(5)	(5)
Impairment of plant and equipment	(830)	(830)
Depreciation expense	(71)	(71)
Balance at 31 December 2017	197	197

Plant and equipment includes capital expenditure of $830,143 relating to various printing assets acquired by the Group and held in YPB Group (USA) Inc. under an agreement with a joint venture party.

The printing assets are currently secured in storage and are not put into use and are therefore not subject to depreciation.

Management assessed the expected net cash flows from the printing assets as unlikely given the termination of the agreement with the joint venture party in early 2018. Management has recognised a full impairment to these assets amounting to $830,143 and will re-evaluate its options in Mexico.

Note 11. Non-current assets - intangibles

	Consolidated	
	2017 $'000	2016 $'000
Goodwill - at cost	3,089	3,089
Less: Accumulated impairment losses	(3,089)	(3,089)
	-	-
Intellectual property - at cost	13,052	13,804
Less: Accumulated amortisation	(2,614)	(1,723)
Less: Accumulated impairment losses	(8,104)	-
	2,334	12,081
Customer relationships – at cost	206	206
Less: Accumulated amortisation	(28)	(28)
Less: Accumulated impairment losses	(178)	(178)
	-	-
Patent licence rights – at cost	6,781	-
	9,115	12,081

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

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

Consolidated	Goodwill $'000	Intellectual property $'000	Customer relationships $'000	Patent licence rights $'000	Total $'000
Balance at 1 January 2016	3,084	12,901	191	-	16,176
Exchange differences	5	70	1	-	76
Impairment charge	(3,089)	-	(178)	-	(3,267)
Amortisation expense	-	(890)	(14)	-	(904)
Balance at 31 December 2016	-	12,081	-	-	12,081
Additions	-	-	-	6,781	6,781
Exchange differences	-	(752)	-	-	(752)
Impairment charge	-	(8,104)	-	-	(8,104)
Amortisation expense	-	(891)	-	-	(891)
Balance at 31 December 2017	-	2,334	-	6,781	9,115

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.

Patent Licence Rights

On 13 September 2017, the Company entered into an agreement with Motif Micro Inc. ('Motif Micro'), in order to acquire Motif Micro's patented licence rights ('the transaction') 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.

Effective 19 December 2017, the Company ratified its commitment to the transaction for a total consideration of $6,780,660 (US $5,288,915), to be settled by a mix of cash and shares.

As at year-end, $5,320,513 (US $4,150,000) remains payable under the agreement and has been recognised in current liabilities.

Subsequent to year-end, and following a successful capital raise, the total payable has been settled as follows:
- $1,474,359 (US $1,150,000) in cash
- $3,846,154 (US $3,000,000) via the issue of 72,392,660 shares.

Refer to further details in Note 24 – Events after the reporting period.

Refer also to Note 20 – Contingencies and commitments for comments on liabilities which are contingent upon the achievement of pre-determined milestones.

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

Intellectual Property

In reviewing the recoverable amounts of the intellectual property, as at 31 December 2017, the directors have applied the 'value in use' methodology for each cash-generating unit, as defined at 31 December 2017. The annual impairment test was based on the approved annual operating plan ('AOP') and the accompanying five-year outlook.

The financial under-performance of the full year ended 31 December 2017 was largely due to a lack of expected pipeline conversion and management's focus on internal restructuring and cost reduction initiatives, resulting in key personnel changes and the departure of both the CEO and CFO. With the internal review process now completed and new additions to the management team, the board and management teams' absolute focus is on realisation of the conversion targets set within the AOP.

As a result of the review, it was determined that certain intangible assets required impairments because of overhauls on our core products and upgrades to the underlying technologies.

The key assumptions and results arising from the value in use methodology, based on the approved AOP, relating to the unimpaired YPB business units (excluding revenue derived from patent licence rights), include:

- Revenue growth from conversion of sales pipeline of $17.5m for FY2018 with an annual long-term growth rate range between 2% and 5%
- EBITDA of $1.2m to be achieved within FY18
- Discounted cash flow modelling based on remaining life of intellectual property of 15 years with no terminal value;
- Mid-point WACC of 17.9% assuming a long-term debt/equity ratio of 10 / 90; and
- The group securing sufficient funding to continue as a going concern.

The sensitivity analysis conducted by the directors indicates that any downward variation of more than 10% of the budgeted FY2018 revenue streams no longer yield any headroom.

Note 12. Current liabilities - trade and other payables

	Consolidated	
	2017 $'000	2016 $'000
Trade payables	1,081	1,202
Sundry payables and accruals	5,701	975
	6,782	2,177

Refer to note 17 for further information on financial instruments.

Included in sundry payables is an amount of $5,320,513 relating to the patent licence rights acquired in December 2017, as outlined in Note 11 above. The debt has been fully settled via a combination of cash and shares in January 2018.

Note 13. Current liabilities - financial liabilities

	Consolidated	
	2017 $'000	2016 $'000
Convertible notes (Bracknor facility)	1,836	-

Note 13. Current liabilities - financial liabilities (continued)

During October 2017, the Group commenced discussions with Bracknor Investment Group to alter the terms of the existing facility.

The variations are centered around the Group wanting to exit the facility by settlement, mainly in cash or shares issued at a discount, within the next 12 months.

The final terms are yet to be formally approved, however the Group subsequent to year-end, on 22 January 2018, settled the first of two repayment tranches with Bracknor Investment Group amounting to $891,236. The final repayment tranche is yet to be agreed on, with the outstanding balance attracting interest at 20% p.a. Refer to Note 23 – Events after the reporting period for further details.

The details outlined below represent the terms and conditions of the original contract entered into.

On 3 May 2017 the Group secured a USD 10,000,000 (US Ten million dollar) flexible funding facility with Bracknor Investment Group. The facility represents an interest free mandatory convertible bond arrangement with an additional warrants funding programme, stretching over 36 months.

The facility is classified as a compound financial instrument, however due to the fix-for-fix measurement criteria as per AASB 132 Financial Instruments: Presentation, all components are classified as debt as at 31 December 2017.

Convertible Notes
The total agreement accounts for 1,000 Notes with a face value of USD 10,000.

The first tranche (the 'Initial Tranche') represented 150 Notes with a face value of $2,016,000, with all subsequent tranches to be issued in lots of 50 Notes.

YPB is committed, but not obliged to take up additional tranches following the issue of the mandatory Initial Tranche.

The Notes are issued to Bracknor based on the lowest VWAP of the preceding 10 trading days, measured from the date of the subscription notice.

Conversion is at the option of the holder at any time. The conversion is based on a discounted share price, based on the lowest VWAP measured over a 10-day period before the date of the conversion notice and is converted to Australian dollar on the date of the resulting share issue.
The conversion calculation is also subject to a set floor share price of $0.065, with a cash compensation component becoming payable, if the calculated conversion price falls below the set floor price.

No conversion was processed during the year.

As part of the facility, YPB agreed to a commitment fee amounting to USD 250,000, which becomes payable proportionally with each tranche entered. The commitment fee component relating to the Initial Tranche has been settled by the issue of 1,210,074 shares equivalent to $103,000 on 15th May 2017.

Warrants
Attached to the convertible notes are warrant options, which are issued based on 50% of the tranche dollar value with the issue price calculated on a premium of 30% over the lowest VWAP measured within a 15-day period, before the subscription notice and a 'trunc factor' of 2 being applied.

Warrants upon issue become independent of the convertible notes and have an expiry period of 4 years from date of issue.

At the end of the 31 December 2017 period, YPB had only subscribed to the Initial Tranche (see above) resulting in a total of 8,463,750 warrants being issued to Bracknor on the 8th of May 2017, with an exercise price of $0.12. These warrants hold an embedded derivative value of $256,000.

On the day of issue, owing to volatility of parameters, including the spread of the exercise price over the current market price and the number of warrants on issue, no value was assigned to the warrants. The parameters are reviewed each quarter to recognise any subsequent fair value adjustment.

Note 14. Non-current liabilities - borrowings

	Consolidated	
	2017 $'000	2016 $'000
Current		
Loans to related parties	1,002	-
Non-current		
Loans to related parties	-	3,024
	1,002	3,024

Refer to note 17 for further information on financial instruments.

During the year $2.784m of the prior year loans were converted into ordinary shares, and $42k repaid. The balance as at year end includes new funding provided by Ronald Langley and related entities of John Houston. The loans attract an interest rate of 8% and are unsecured.

Included in the current loan is Ronald Langley's loan amounting to $500,000 which represents a short-term bridging loan and was settled during January 2018 by the issue of ordinary shares. Refer to Note 23 – Events after the reporting period for further details.

Refer also to Note 21 – Related party transactions for details of the movement in loans in FY2017.

Note 15. Equity - issued capital

	Consolidated			
	2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares - fully paid	399,463,400	211,887,886	49,124	41,317

Note 15. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 January 2016	170,400,287	33,606
Exercise of share options	17 February 2016	10,000	2
Issuance in accordance with consulting arrangement	17 February 2016	1,000,000	260
Issued in lieu of directors' fees	13 May 2016	648,486	-
Share placement	30 May 2016	18,916,667	4,540
Issued under share-based payments	6 June 2016	944,446	227
Issued under share-based payments	8 August 2016	200,000	-
Conversion of performance rights	8 August 2016	3,488,000	-
Share placement	26 October 2016	16,000,000	4,000
Issued under share-based payments	27 October 2016	280,000	-
Less: Transaction costs on shares issued, net of tax		-	(1,318)
Balance	31 December 2016	211,887,886	41,317
Issuance in accordance with convertible notes arrangement	15 May 2017	1,210,074	103
Issuance in accordance with convertible notes arrangement	21 July 2017	782,580	38
Issuance as payment to service provider	21 July 2017	795,102	51
Issued under share-based payments	21 July 2017	173,000	-
Issued as part of asset purchase	7 September 2017	10,244,025	410
Share placement	7 September 2017	45,000,000	1,800
Share placement	7 September 2017	9,375,000	375
Issuance in accordance with convertible notes arrangement	7 September 2017	4,194,555	125
Share placement	11 September 2017	27,500,000	1,100
Conversion of debt to equity & settlement of debts	13 September 2017	10,250,000	567
Share placement	3 October 2017	3,750,000	150
Issued under share-based payments	3 October 2017	144,928	-
Conversion of options	1 December 2017	6,250	1
Conversion of debt to equity & settlement of debts	1 December 2017	72,100,000	2,884
Issued as part of asset purchase	1 December 2017	2,050,000	492
Less: Transaction costs on shares issued, net of tax		-	(289)
Balance	31 December 2017	399,463,400	49,124

Note 15. Equity - issued capital (continued)

Movements in options on issue

Details	Date	Options	$'000
Balance	1 January 2016	40,053,884	393
Exercise of share options	17 February 2016	(10,000)	-
Options issued in lieu of retainer	6 June 2016	3,000,000	99
Options issued as management incentive	6 June 2016	4,000,000	160
Options issued as sign on fee	8 August 2016	400,000	9
Options issued upon purchase of shares by employees	27 October 2016	788,000	34
Options issued as part of capital raising	12 December 2016	64,000,000	-
Balance	31 December 2016	112,231,884	695
Options issued under existing employment agreement	21 July 2017	346,000	1
Exercise of share options	31 October 2017	(6,250)	-
Options lapsed	31 October 2017	(40,037,634)	(394)
Balance	31 December 2017	72,534,000	302

Movements in share based payments

Details	Date	$'000
Balance	1 January 2016	97
Performance rights granted	13 May 2016	203
Issued under share-based payments	8 August 2016	627
Performance rights granted	8 August 2016	36
Issued under share-based payments	27 October 2016	52
Balance	31 December 2016	1,015
Issued under share based payments	21 July 2017	26
Issued under share based payments	3 October 2017	50
Balance	31 December 2017	1,091

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.

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

Volatility	73.82 %
Risk-free rate	4.02%
Weighted average term (years)	1.67
Weighted average remaining life at 31 December 2017	1.23

346,000 options were issued on 21 July 2017. 173,000 options have an exercise price of $0.35 per share with a value of $0.0024 per option, and the remaining 173,000 options have an exercise price of $0.50 per share with a value of $0.0011 per option. The options expire on 24 March 2019.

Note 15. Equity - issued capital (continued)

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

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

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

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

	Note	Consolidated	
		31 December 2017 $	**31 December 2016 $**
Total borrowings	13,14	2,838	3,024
Less cash and cash equivalents	4	(845)	(2,715)
Net debt		1,993	309
Total equity		1,138	13,509
Total capital		3,131	13,818
Gearing ratio		64%	2%

Note 16. Equity - reserves

	Consolidated	
	2017 $'000	**2016 $'000**
Foreign currency translation reserve	2,091	2,341
Issued options reserve	302	695
Share-based payments reserve	1,091	1,015
Warrant options reserve	256	-
	3,740	4,051

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

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

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

Warrant options reserve
The warrant options reserve has been used to recognise the warrants issued as part of the Bracknor facility – refer to note 13.

Note 17. Financial instruments

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

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

Market risk

Foreign currency risk
Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group. The Group does not have a policy for hedging against currency exchange exposure.

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

Consolidated – 31 December 2017	**2017 RMB $000**	**2017 USD $000**	**2017 THB $000**	**2016 RMB $000**	**2016 USD $000**	**2016 THB $000**
Cash and cash equivalents	611	5	2,787	590	29	1,750
Trade and other receivables	201	70	1,701	459	114	-
Trade and other payables	(978)	(4,178)*	(1,239)	(937)	(109)	(636)
Borrowings	-	(623)	-	(7,441)	(1,557)	(1,302)

*****Included in this balance is the USD $4.15mill payable to Motif Micro, which was settled by 24 January 2018 via a combination of cash and ordinary shares.

Sensitivity analysis

Based on the financial instruments held at 31 December 2017, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group’s post-tax profit for the period would have been $606,000 lower/higher (2016: $210,000 lower/higher).

Had the Australian dollar weakened/strengthened by 10% against the Renminbi with all other variable held constant, the Group’s post-tax profit for the period would have been $3,000 higher/lower (2016: $146,000 higher/lower).

Had the Australian dollar weakened/strengthened by 10% against the Thai Baht with all other variables held constant, the Group’s post-tax profit for the period would have been $13,000 higher/lower (2016: $9,000 higher/lower).

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

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

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

Note 17. Financial instruments (continued)

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

Consolidated - 2017	**Effective Interest Rate %**	**1 year or less $'000**	**Between 1 and 5 years $'000**	**Remaining contractual maturities $'000**
Financial assets - cash flows realisable				
Cash and cash equivalents	2.00%	845	-	845
Trade and other receivables	-	508	-	508
Financial liabilities - due for payment				
Trade and other payables	-	(6,782)	-	(6,782)
Borrowings	8.00%	(1,002)	-	(1,002)
Convertible loan facility (Bracknor)	20.00%	(1,836)	-	(1,836)
Total non-derivatives		(8,267)	-	(8,267)

Consolidated - 2016	**Effective Interest Rate %**	**1 year or less $'000**	**Between 1 and 5 years $'000**	**Remaining contractual maturities $'000**
Financial assets - cash flows realisable				
Cash and cash equivalents	2.00%	2,715	-	2,715
Trade and other receivables	-	729	-	729
Financial assets	-	2,250	-	2,250
Financial liabilities - due for payment				
Trade and other payables	-	(2,177)	-	(2,177)
Borrowings	8.00%	-	(3,024)	(3,024)
Total non-derivatives		3,517	(3,024)	493

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

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

Note 18. Key management personnel disclosures

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

John Houston (Executive Chairman)
Robert Whitton (Company Secretary – ceased 31 May 2017)
Su (George) Su
Ronald Langley (ceased 31 May 2017)
Gerard Eakin

Note 18. Key management personnel disclosures (continued)

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

Jens Michel (ex Chief Executive Officer - resigned July 2017)
Jason York (ex Chief Financial Officer – resigned June 2017)
Greg O’Shea (Chief Operating Officer)
Robert Whitton (interim Chief Financial Officer)

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's Key Management Personnel (KMP) for the years ended 31 December 2017 and 2016.

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

	Consolidated	
	2017 $	2016 $
Short-term employee benefits	1,437,204	1,918,578
Post-employment benefits	-	543,339
	1,437,204	2,461,917

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

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

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the years ended 31 December 2017 and 2016.

Note 19. Remuneration of auditors

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

	Consolidated	
	2017 $	2016 $
Audit services -		
Audit or review of the financial report	79,500	70,000
Component auditors		
- Audit or review of the financial report	56,752	69,799

Note 20. Contingencies and commitments

Operating lease commitments

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Group Total		
Within one year	119	257
Later than one year but not later than five years	-	126
	119	383

Other contingent liabilties
The Group has a contingent liability as at 31 December 2017 to the value of USD $1mill, to be settled via the issue of ordinary shares upon the successful achievement of specific milestones, as outlined in its agreement with Motif Micro. The agreement outlines that the milestone has to be achieved within 9 months of the 'clock start date'. The clock start date is defined as any date within 4 months of the execution of the agreement, being 19 December 2017.

Note 21. Related party transactions

Parent entity
YPB Group Ltd is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 23.

Key management personnel
Disclosures relating to key management personnel are set out in Note 18 and the remuneration report included in the directors' report.

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

	Consolidated	
	2017	**2016**
	$	**$**
Loans from other key management personnel related entity		
Beginning of the year	3,024	3,104
Loans advanced	1,002	-
Interest charged	378	198
Loan converted to equity	(2,784)	-
Loan repayment	(420)	(198)
Exchange differences	(198)	(80)
End of the year	1,002	3,024

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

Other transactions which related parties
During the year, capital raising fees were paid to Manifest Capital Management Pty Ltd (related entity of Gerard Eakin) for $100,000, and to Ronald Langley for $50,000.

Note 22. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2017 **$'000**	**2016** **$'000**
Loss after income tax	(24,836)	(6,515)
Total comprehensive income	(24,836)	(6,515)

Statement of financial position

	Parent	
	2017 **$'000**	**2016** **$'000**
Total current assets	647	4,283
Total assets	5,553	19,652
Total current liabilities	1,034	1,276
Total liabilities	3,872	1,276
Equity		
Issued capital	54,161	46,354
Share options & warrant options reserve	557	695
Share-based payments reserve	1,091	1,015
Accumulated losses	(54,130)	(29,688)
Total equity	1,679	18,376

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

Contingent liabilities
The Group has a contingent liability as at 31 December 2017 to the value of USD $1mill, to be settled via the issue of ordinary shares upon the successful achievement of specific milestones, as outlined in its agreement with Motif Micro. The agreement outlines that the milestone has to be achieved within 9 months of the ‘clock start date’. The clock start date is defined as any date within 4 months of the execution of the agreement, being 19 December 2017.

Contractual commitments
There were no contractual commitments at 31 December 2017 and 2016 which related to the parent entity.

Note 23. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2017 %	Ownership interest 2016 %
YPB Limited (HK)	Hong Kong	100.00%	100.00%
YPB Technology (Beijing) Limited	PRC China	100.00%	100.00%
Product ID & Quality Systems (Beijing) Ltd	PRC China	100.00%	100.00%
Brand Reporter Pty Ltd	Australia	100.00%	100.00%
YPB Group (USA) Inc	USA	100.00%	100.00%
YPB Intellectual Product Protection Inc	USA	100.00%	100.00%
YPB Print Solutions Inc	USA	100.00%	100.00%
YPB Group Co., Ltd	Thailand	100.00%	100.00%
nTouch Holdings Pty Ltd	Australia	100.00%	100.00%
nTouch Agency Pty Ltd	Australia	100.00%	100.00%
nTouch Pty Ltd	Australia	100.00%	100.00%
nTouch IP Pty Ltd	Australia	100.00%	100.00%
Wall Mall Pty Ltd	Australia	100.00%	100.00%
YPB Product Development Pty Ltd	Australia	100.00%	100.00%

Note 24. Events after the reporting period

The following events have occurred since 31 December 2017:

- On 8 January 2018, the Group entered into a trading halt and subsequently a voluntary suspension on 10 January 2018.
- On 22 January 2018, $5m was raised via a placement to sophisticated and institutional investors. Proceeds from this placement were used to settle Motif Micro related debt (see Note 12), a partial repayment of the Bracknor convertible loan facility (see Note 13) and the debt owing on Ronald Langley's loan facility (see Note 14).
- On 22 March 2018, a contract with Alibaba Health (Hong Kong) Technology Company Limited ('AliHealth'), a subsidiary of Alibaba Group, was signed whereby YPB Group Ltd has been appointed as an Independent Software Vendor (ISV) of the AliHealth supply chain traceability platform for the China market.
- On 26 March 2018, the Group signed a MOU with the Australian Made Campaign to offer its full product suite to Australian Made licensees.
- On 26 March 2018, the Group resumed trading subsequent to a successful additional capital raise of $1.087m.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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

	Consolidated	
	2017 $'000	2016 $'000
Loss after income tax benefit for the year	(20,261)	(16,441)
Adjustments for:		
Foreign exchange differences	277	(308)
Impairment of plant and equipment	830	-
Depreciation and amortisation expense	967	970
Impairment of goodwill & other intangible assets	8,104	3,267
Options expense	1	202
Share-based payments	179	515
Diminution in fair value of financial assets	1,775	1,060
Change in operating assets and liabilities; net of the effects of purchase and disposal of subsidiaries		
Decrease in trade and other receivables	222	491
Decrease/(increase) in inventories	15	(169)
Increase in trade and other payables	114	759
Net cash used in operating activities	(7,777)	(9,654)

Note 26. Earnings per share

	Consolidated	
	2017 $'000	2016 $'000
Loss after income tax attributable to the owners of YPB Group Ltd	(20,261)	(16,441)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	248,202,931	187,755,202
Weighted average number of ordinary shares used in calculating diluted earnings per share	248,202,931	187,755,202
	Cents	**Cents**
Basic earnings per share	(8.16)	(8.76)

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

Note 27. Company details

The registered office of the company is:

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

The principal places of business are:

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

42 Manilla Street
East Brisbane
Queensland 4169
Australia

First floor, Building 50
Zhaowei Industrial Zone No.14
Jiuxianqiao Road, Chaoyang District
Beijing 100015
China

YPB Group Ltd
Directors' declaration
31 December 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the directors

John Houston
Dated this 29th day of March 2018

SYDNEY
Level 40
2 Park Street
Sydney NSW 2000
Australia

GPO Box 3555
Sydney NSW 2001

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

YPB GROUP LIMITED
ACN 68 108 649 421
AND CONTROLLED ENTITIES

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

Opinion

We have audited the financial report of YPB Group Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and the directors' declaration.

In our opinion:

(a) the accompanying financial report of the YPB Group Limited is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Basis of Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the group incurred a net loss after tax of $20,261,000 during the year ended 31 December 2017 and as of that date, the group's current liabilities exceeded its current assets by

$8,174,000. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
Intangible Assets ($9,115K) *Refer to Note 11 Intangible Assets, and Note 1 Critical Accounting Estimates and Judgements.*	
The recoverability of intangible assets is a key audit matter as Intangible assets comprise circa 83% of the Group's total assets. The group is operating in a developing market, which has increased the uncertainty of forecasted cash flows and delayed the crystallisation of revenue pipelines. The recoverable amount of the Group's intellectual property is based on the value in use methodology. Critical to management's methodology is the revenue forecasted for FY2018 of $17.5m based on the successful conversion of sales pipelines into actual revenue. We have applied a significant level of judgement when considering management's assessment of the carrying value.	Our procedures included, amongst others: • We assessed management's determination of the Group's CGUs based on our understanding of the nature of the Group's business. We also analysed the internal reporting of the Group to assess how results were monitored and reported. • We compared the cash flow forecasts to Board approved forecasts. We also evaluated the forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing to actual outcomes. • With the assistance of Hall Chadwick's valuation specialist, we challenged the Group's valuation methodologies, discount rates and growth rates. This included comparing the group's inputs to external data such as economic growth projections and interest rates. • We considered the historical accuracy of the conversion of sales pipeline to actual sales • We performed sensitivity analysis on the key inputs to the value in use model. • For the intellectual property where impairments had been recognised, we recalculated the impairment charge by comparing the carrying amount of the assets to management's valuation.

YPB GROUP LIMITED
ACN 108 649 421
AND CONTROLLED ENTITIES

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

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
The fair value of the Group's patent license rights is based on an arm's length transaction completed at year end.	• For finite life intangible assets we recalculated the amortisation charge and compared this to the group's amortisation accounting policy. • We read the patent license agreement to understand the key terms and conditions. • We verified the different components of the purchase consideration to the license agreement.

Other Information
The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2017, but does not include the financial report and the auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report
The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australia Accounting Standards and the Corporations Act 2001 and for such internal control as directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

YPB GROUP LIMITED
ACN 108 649 421
AND CONTROLLED ENTITIES

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

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

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 11 to 14 of the directors' report for the year ended 31 December 2017. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the remuneration report of YPB Group Limited for the year ended 31 December 2017 complies with s 300A of the Corporations Act 2001.

Hall Chadwick

Hall Chadwick
Level 40, 2 Park Street
Sydney NSW 2000

GWebb

Graham Webb
Partner
Dated: 29 March 2018

Shareholder Information

Distribution of holders

The number of holders and amount of holdings by a range of holding sizes of the ordinary shares and options as at 29 March 2018 are detailed below:

Holding Size	Shares	
	No. of holders	Shares Held
1 – 1,000	111	11,022
1,001 – 5,000	113	353,146
5,001 – 10,000	162	1,429,860
10,001 – 100,000	526	22,954,106
100,001 – and over	343	631,403,283
	1,255	656,151,417

Number of holding less than a marketable parcel of 275.

Substantial Shareholders

The names of substantial shareholders listed in the Company's register as at 29 March 2018 are:

	Number of Shares Held
THE BIMM CORPORATION PTY LTD <FJ FUND A/C>	80,372,322
MR RONALD LANGLEY	55,465,213
J F HOUSTON HOLDINGS PTY LTD <THE HOUSTON FAMILY A/C>	49,947,257
MR PAUL BISSO	41,318,342
MR PATRICK DOYLE	41,318,343

Voting rights

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

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

Unlisted options:

Tranche A Exercise $0.50 Expiry 28 Feb 2019

Tranche B Exercise $0.75 Expiry 28 Feb 2019

Exercise $0.35 Expiry 1 August 2018

Exercise $0.35 Expiry 12 December 2026

Exercise $0.35 Expiry 24 March 2019

Exercise $0.35 Expiry 27 Oct 2018

Exercise $0.45 Expiry 12 December 2026

Exercise $0.50 Expiry 1 August 2018

Exercise $0.50 Expiry 24 March 2019

Exercise $0.50 Expiry 27 April 2018

Exercise $0.50 Expiry 27 Oct 2018

Exercise $0.55 Expiry 12 December 2026

Exercise $0.65 Expiry 12 December 2026

Exercise $0.75 Expiry 27 April 2018

Holding Size	Options	
	No. of holders	Options Held
1 – 1,000	-	-
1,001 – 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	-	-
100,001 – and over	6	72,534,000
	6	72,534,000

Top 20 Ordinary Shareholders as at 29 March 2018

THE BIMM CORPORATION PTY LTD <THE FJ FUND A/C>	80,372,322
MR RONALD LANGLEY	55,465,213
J F HOUSTON HOLDINGS PTY LTD <THE HOUSTON FAMILY A/C>	49,947,257
MR PATRICK DOYLE	41,318,343
MR PAUL BISSO	41,318,342
ACK PTY LTD <MARKOFF SUPER NO 2 A/C>	22,564,103
MELBARD NOMINEES PTY LIMITED <SUSPENSE - NSB A/C>	19,200,000
AUST EXECUTOR TRUSTEES LTD <FLANNERY FOUNDATION>	15,148,737
MR EVAN PHILIP CLUCAS & MS LEANNE JANE WESTON <KURANGA NURSERY SUPER A/C>	13,234,234
AET SFS PTY LTD <PEAK OPPORTUNITIES FUND>	11,259,928
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	8,827,860
AUST EXECUTOR TRUSTEES LTD <ILWELLA PTY LTD>	7,698,202
MR TIMOTHY JOHN EAKIN <ESTATE LATE VJA FLYNN A/C>	7,552,954
AZM WEALTH MANAGEMENT PTY LTD	7,500,000
1215 CAPITAL PTY LTD	6,422,270
CVC LIMITED	5,809,963
JOJO ENTERPRISES PTY LTD <SFI FAMILY A/C>	5,538,206
HIGH ALTITUDE INVESTMENTS LIMITED	5,496,716
SSS CAPITAL PTY LTD	5,250,000
MR RALPH DAVIS	5,000,000
	414,924,650
Balance of register	241,226,767
TOTAL	656,151,417

Top 20 Unlisted Option Holders as at 29 March 2018

ACK PTY LTD <MARKOFF SUPER NO 2 A/C>	64,000,000
MR JENS MICHEL	3,000,000
TR NOMINEES PTY LTD	3,000,000
MR PHILIPP HOFFMANN	1,306,000
WATERBEAR HOLDINGS PTY LTD	1,000,000
MR SHELDON CRAIG BRADY	228,000
	72,534,000
Balance of register	-
TOTAL	72,534,000

On-Market Buy Back

There is currently no on-market buy back.

Corporate Directory

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

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

AUDITORS
Hall Chadwick
Level 40, 2 Park Street
Sydney NSW 2000
Telephone: +612 9263 2600
Facsimile: +612 9263 2800

STOCK EXCHANGE LISTING
The shares of YPB Group Ltd are listed on the Australian Stock Exchange.
ASX Code: Ordinary Shares YPB
Web site: www.asx.com.au

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

COMPANY SECRETARY
Robert Whitton