

ASX/MEDIA ANNOUNCEMENT

ASX: YPB | 31st July 2017

YPB PROVIDES REVIEW OF Q2 2017 ACTIVITIES

- **Cash receipts lower in Q2 on prior quarter as foreshadowed**
- **Non-COGS costs trending lower and closing in on \$6.5m annualised target**
- **Executive leadership change in early July already increasing operational effectiveness**

Brand Protection and Customer Connection solutions company YPB Group Ltd (ASX: YPB) is pleased to provide a summary of activities for the quarter ended 30 June 2017.

The quarter again showed similar financial operating results to the preceding quarter. Cash receipts were down as were costs. All results were in line with expectations.

Net cash used in operating activities fell 13% on Q1 2017 despite lower cash receipts due to lower R&D, personnel and corporate costs.

The cost out programme is tracking to plan with quarterly non-COGS gross spend on costs falling from \$2.8m in Q4 2016, to \$2.1m in Q1 2017 and \$1.8m in Q2 2017. The trend largely confirms the trajectory of annual overhead expense falling from \$11.1m as at end 2016 to \$6.5m by mid-2017 as previously advised.

Contract closures in the quarter were poorer than originally anticipated but cash receipts were largely as expected. Contract closures are still slower than hoped thus far in Q3 but progress is clear and the prospect of good contract closures in the current quarter remains solid.

The timing of closures will determine the outcome of Q3 2017 cash receipts. Nevertheless, present indications are that Q2 2017 will mark the low in cash receipts and a clear improvement should be evident in Q3 2017.

Post quarter-end, following the CEO's departure in early July 2017, founder, major shareholder and Executive Chairman John Houston resumed day to day operational leadership. John has already clearly improved operational traction and resource allocation effectiveness.

John's greater operational intensity has reinforced the Board's already strong expectation of a \$5m pre-tax profit in 2018. As previously noted, building the company's potential new business pipeline to \$122m has been a major achievement and the profit target requires only relatively modest conversion of that pipeline to revenue. As previously observed, the company is on the cusp of a profound financial transformation but contract delivery and revenue commencement remain the keys. Conversion of pipeline to revenue is the subject of vigorous, refocussed effort.

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Developments in Q2 2017 included:

- Signing Guangzhou Panyu MCP Industries part of SOE COFCO's packaging operations, as a new channel partner (signed end March);
- Concluding a US\$10m convertible notes with warrants funding facility with Bracknor Investment Group of Dubai; and
- Signing Kim Pai Impact of Thailand, a major tube producer for multi-national FMCG operators.

In early July:

- John Houston resumed full operational leadership; and
- A four year A\$5.6m print contract to supply winning ticket registers was awarded by the National Lottery Office in Mexico

FINANCIAL SUMMARY

Q1 2017 cash flows were in line with expectations. Cash receipts for Q2 were \$0.532m down from \$0.770m in Q1. Clear improvement in cash receipts is likely in Q3, although they will remain relatively modest in terms of the company's potential and ambitions.

Gross cash outflows were down approximately 7% on Q1 2017 including COGS and down circa 11% excluding COGS. Net cash used in operating activities was down 13% on the prior quarter at \$2.0m from \$2.4m

R&D spend fell \$0.196m in Q2 from Q1 due to the bulk of the CONNECT 2.0 software release being completed. R&D spend fell faster than previously expected in Q2 and is expected to remain fairly stable in Q3 whereas previously it was expected to fall further.

Staff costs fell roughly 10% in Q2 from Q1 and will fall further in the current quarter. Corporate costs fell 12% and will fall further in Q3. COGS may rise in Q3 due to imminent Retail Anti-Theft opportunities.

Cash at end Q2 was \$0.557m down from \$0.680m at end Q1 2017.

Please note that the Appendix 4C includes "estimated cash outflows for next quarter" at item 9. Please be aware that this is a *gross* cash outflows forecast and should not be compared to the *net* cash flow figure in item 1 of the Appendix 4C. Q3 2017 gross cash outflows are likely to be down approximately 20% on Q2 2017. This is in line with the trend forecast in the last 4C Commentary and is on track for the annualised 40% reduction in non-COGS costs announced in February 2017..

YPB Executive Chairman John Houston said: "While Q2 2017 was an expectedly soft quarter financially, the data show we are on target to meet our cost-out goals. More importantly, since resuming full operational control, minor changes are quickly lifting effectiveness. We have an A Grade on-field team and with the relevant resourcing, support, counsel and focus we can and will build a thriving, profitable business by driving pipeline conversion."

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PROTECT | DETECT | CONNECT

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ABOUT YPB

YPB Group (ASX: YPB) is a pioneer in advanced brand protection solutions. Listed on the Australian Securities Exchange, YPB is expanding its global footprint with an established presence in Australia, China, Thailand, USA, Mexico and India.

YPB's patented Anti-Counterfeit technology combined with its Security Packaging and Anti-Theft solutions, Consulting Services and YPB's proprietary CONNECT platform enables clients to PROTECT their high value brands from the risks of counterfeit, product diversion and theft while providing the tools to CONNECT directly with their customers.

PROTECT

Smart Security Packaging and labeling for Brands

YPB offers a wide range of Smart Security Packaging and Labeling solutions that can be incorporated into almost any material and offer cost effective strategies to PROTECT the integrity and value of products and brands in high-risk markets.

Government Vital Documents

YPB offers solutions to Governments to PROTECT their Vital Documents that include ID cards, Visas, Passports, Vehicle Labels and many other applications.

Retail Anti-theft

YPB offers clients the latest technology in Retail Anti-Theft and Labeling solutions effective for mainstream retailers, boutiques and exporters to PROTECT against theft.

IP solutions & forensic services

YPB's IP solution specialists work with quality brands and Governments, to develop bespoke brand protection strategies and solutions that will deliver real protection and safety for brands, products and consumers.

Secure Supply Chain

YPB offers secure supply chain solutions to Governments, banks and companies wanting to ensure the integrity of their supply chain using a combination of YPB's authentication technology and secure track and trace solutions, delivering real protection for high value documents, brands, products and consumers.

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DETECT

Scanner and Tracer protection solutions

YPB's patent protected state-of-the art Tracer technology is invisible, cannot be copied or destroyed.

Brand owners who include YPB's tracers in their packaging can use YPB's scanners to verify their product's authenticity. If a counterfeit is detected YPB's forensic services can consult with a brand owner to develop strategic, tailored solutions to protect the brand against counterfeiting and product diversion.

CONNECT

Smartphone applications to Detect and Connect

YPB's sophisticated, user friendly and powerful smartphone applications allow brand owners and consumers to identify and report suspected counterfeit or diverted products. They also allow brands to connect and engage directly with their customers via QR codes, Near Field Communication, secure track and trace and product scanning. The YPB CONNECT platform delivers brand owners valuable and actionable intelligence about their products and customers to measure, tailor and individualise direct marketing campaigns through a 'big data' analytics capability.

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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Name of entity

YPB Group Limited

ABN

68 108 649 421

Quarter ended ("current quarter")

June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	532	1,302
1.2 Payments for		
(a) research and development	(376)	(949)
(b) product manufacturing and operating costs	(366)	(665)
(c) advertising and marketing	(44)	(123)
(d) leased assets	(62)	(151)
(e) staff costs	(1,283)	(2,689)
(f) administration and corporate costs	(558)	(1,258)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	4
1.5 Interest and other costs of finance paid	(48)	(97)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	189	234
1.9 Net cash from / (used in) operating activities	(2,045)	(4,392)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(49)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	-	(49)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	2,051	2,473
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(121)	(188)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	1,930	2,285

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	680	2,752
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,045)	(4,392)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	(49)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	1,930	2,285

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(8)	(39)
4.6	Cash and cash equivalents at end of quarter	557	557

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	557	680
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	557	680

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	254
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

N/A

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

N/A

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

N/A

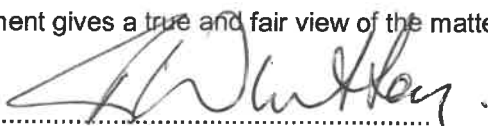
9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	(379)
9.2 Product manufacturing and operating costs	(377)
9.3 Advertising and marketing	(40)
9.4 Leased assets	(55)
9.5 Staff costs	(855)
9.6 Administration and corporate costs	(510)
9.7 Other (provide details if material)	120
9.8 Total estimated cash outflows	(2,096)

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

Compliance statement

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

Sign here:


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(Company Secretary)

Date: 31 July 2017.

Print name: Robert Whitton...

Notes

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

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