



THC Global Group

ACN: 614 508 039

**Appendix 4E
Preliminary Final Report
for the Year Ended
31 December 2019**

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Appendix 4E

Preliminary final report

Name of entity:

THC Global Group Limited

ABN or equivalent company
reference:

33 614 508 039

1. Reporting period

Reporting period:

Year ended 31 December 2019

Previous corresponding period:

Year ended 31 December 2018

2. Results for announcement to the market

Current Year
2019
\$

2.1	Revenue from ordinary activities	Up	80%	to	4,792,258
2.2	Loss from ordinary activities for the period after tax attributable to members	Up	36%	to	11,679,182
2.3	Net loss for the period attributable to members	Down	(779%)	to	11,593,537
2.4	Dividends		Amount per security		Franked amount per security
	Final dividend		Nil		N/A
	Interim dividend		Nil		N/A
2.5	Record date for determining entitlements to the dividends		N/A		

2.6 Brief explanation of any of the figures reported above to enable the figures to be understood:

Revenue and loss from ordinary activities is attributable to:

- Revenues of CMP experiences a 80% year-on-year growth thanks to a broadening product offering and expansion across the Canadian market;
- Cost of goods have also increased proportionate to revenues due to sales mix, the gross margin decreased by 5% to 24% from FY18;
- Significant corporate and consulting expenditure was incurred in FY19 as the Group continued to progress its operations in Bundaberg and Southport;
- Employee benefits expenses have increased 50% from FY18 to \$2.37m due to Canndeo and THC Pharma operations commissioning, both of which require substantial personnel;
- A \$0.9m impairment of goodwill has been recognised in the year on performance shares issued to vendors of Canndeo. These shares have either lapsed without converting or it is the Directors' opinion that they will lapse without converting;
- Another \$1.05m impairment expense was recognised in the year on intellectual property acquired from Pegasus Agriculture Pty Ltd. The IP is for an epigenetic process in which organisms respond to environmental stress. Management has prudently impaired the carrying value of the IP in the current financial period. This does not in any way change the ownership or rights of the Group over the IP;
- A further \$0.48m impairment was recognised on settlement of loan receivables;
- General administration and overheads have increased as a result of the Group's continued expansion across multiple sites.

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3. Consolidated Statement of Comprehensive Income

	Current Period 31 Dec 2019 \$	Previous Period 31 Dec 2018 \$
Revenue from continuing operations	4,792,258	2,664,094
Cost of goods sold	(3,652,620)	(1,904,336)
Gross profit	1,139,638	759,758
Other income	292,074	254,637
Freight and other selling expenses	(439,810)	(206,861)
Professional expenses	(964,039)	(1,053,108)
Corporate and consulting expenses	(2,182,513)	(1,155,721)
Plant and facility costs	(474,685)	(313,954)
Research and development expenses	(140,297)	(41,629)
License and registration fees	(66,003)	(80,434)
Employee benefits expense	(2,370,377)	(1,580,518)
Advertising and promotion expenses	(231,687)	(189,128)
Insurance expenses	(472,260)	(304,875)
Bad debts expense	(59,854)	(22,853)
Depreciation and amortisation expense	(222,099)	(115,135)
Impairment expense	(2,537,177)	(1,200,000)
Finance expenses	(143,699)	(84,052)
Office and occupancy expenses	(368,496)	(372,637)
Administration expenses	(1,247,478)	(963,616)
Foreign exchange loss	(40,124)	-
Share based payments	(1,150,296)	(1,941,144)
Loss before income tax	(11,679,182)	(8,611,270)
Income tax expense	-	-
Loss after income tax expense from continuing operations	(11,679,182)	(8,611,270)
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations, net of tax	85,645	71,458
Items that will not be reclassified subsequently to profit or loss		
Gain on revaluation of land and buildings, net of tax	-	10,246,426
Total comprehensive Profit/(loss) for the year	(11,593,537)	1,706,614
Attributable to:		
Members of the Parent Company		
Basic loss per share	(8.78 cents)	(6.93 cents)

4. Consolidated Statement of Financial Position

	Current Period 31 Dec 2019 \$	Previous Period 31 Dec 2018 \$
Current Assets		
Cash and cash equivalents	3,551,595	6,333,540
Trade and other receivables	1,255,480	866,623
Inventory	1,347,557	1,310,071
Total Current Assets	6,154,632	8,510,234
Non-Current Assets		
Trade and other receivables	248,058	1,758,963
Property, plant and equipment	18,408,506	17,727,498
Leased assets	611,396	384,577
Intangible assets	-	1,050,000
Goodwill	2,415,140	3,315,140
Total Non-Current Assets	21,683,100	24,236,178
Total Assets	27,837,732	32,746,412
Current Liabilities		
Trade and other payables	894,386	363,770
Total Current Liabilities	894,386	363,770
Non-Current Liabilities		
Deferred tax liability	3,886,575	3,886,575
Finance leases	711,263	408,118
Total Non-Current Liabilities	4,597,838	4,294,693
Total Liabilities	5,492,224	4,658,463
Net Assets	22,345,508	28,087,949
Equity		
Contributed equity	28,448,111	23,004,812
Other contributed equity	-	2,650,000
Reserves	11,068,019	13,431,615
Accumulated losses	(17,170,622)	(10,998,478)
Total Equity	22,345,508	28,087,949

5. Consolidated Statement of Cash Flows

	Current Period 31 Dec 2019 \$	Previous Period 31 Dec 2018 \$
Cash flows from operating activities		
Receipts from customers	4,726,704	2,588,466
Payments to suppliers and employees	(12,737,286)	(8,466,763)
Research and development tax incentive received	278,363	-
Interest received	20,473	128,340
Finance costs	(143,699)	(100,148)
Net cash used in operating activities	(7,855,445)	(5,850,105)
Cash flows from investing activities		
Payments for plant and equipment	(517,351)	(763,197)
Payments for land and buildings	(197,328)	(2,268,179)
Investment in subsidiary	-	(27,168)
Net cash used in investing activities	(714,679)	(3,058,544)
Cash flows from financing activities		
Proceeds from shares issued net of costs	2,928,695	4,204,291
Proceeds from conversion of options	1,592,104	-
Loans repaid by related parties	1,260,613	-
Net cash provided by financing activities	5,781,412	4,204,291
Net (decrease)/increase in cash and cash equivalents	(2,788,712)	(4,704,358)
Cash and cash equivalents at the beginning of the year	6,333,540	11,037,689
Effects of exchange rate changes on cash	6,767	209
Cash and cash equivalents at the end of the year	3,551,595	6,333,540

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6. Consolidated Statement of Changes in Equity

	Issued capital \$	Other contributed equity \$	Accumulated losses Reserves \$	Reserves \$	Total \$
Balance at 1 January 2019	23,004,812	2,650,000	(10,998,478)	13,431,615	28,087,949
Loss for the year	-	-	(11,679,182)	-	(11,679,182)
Other comprehensive income	-	-	-	85,645	85,645
Total comprehensive loss for the year	-	-	(11,679,182)	85,645	(11,593,537)
Transactions with owners in their capacity as owners:					
Shares issued in the year	5,498,104	-	-	-	5,498,104
Costs of capital raising	(54,805)	-	-	-	(54,805)
Lapsing of performance shares' vesting conditions	-	(2,650,000)	2,650,000	-	-
Options issued	-	-	-	407,797	407,797
Options expired/cancelled	-	-	2,857,038	(2,857,038)	-
Balance at 31 December 2019	28,448,111	-	(17,170,622)	11,068,019	22,345,508
Balance at 1 January 2018	17,517,047	3,742,000	(2,746,886)	2,845,739	21,357,900
Loss for the year	-	-	(8,611,270)	-	(8,611,270)
Other comprehensive income	-	-	-	10,317,884	10,317,884
Total comprehensive loss for the year	-	-	(8,611,270)	10,317,884	1,706,614
Transactions with owners in their capacity as owners:					
Shares issued in the year	3,000,001	-	-	-	3,000,001
Costs of capital raising	(72,500)	-	-	-	(72,500)
Performance shares cancelled	-	(1,092,000)	-	-	(1,092,000)
Options exercised	1,246,790	-	-	-	1,246,790
Options expired/cancelled	-	-	359,678	(359,678)	-
Equity based payments	1,313,474	-	-	627,670	1,941,144
Balance at 31 December 2018	23,004,812	2,650,000	(10,998,478)	13,431,615	28,087,949

7. Dividends (in the case of a trust, distributions)

Date dividend is payable

N/A

[†]Record date to determine entitlements to the dividend

N/A

If it is a final dividend, has it been declared?

N/A

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Amount per security

	Amount per security	Franked amount per security at 30% tax (see note 4)	Amount per security of foreign source dividend
Final dividend: Current year	NIL	N/A	N/A
Interim dividend: Current year	NIL	N/A	N/A

Total dividend (distribution) per security (interim plus final)

	Current period	Previous Period
Ordinary securities	N/A	N/A
Preference securities	N/A	N/A

8. Dividend or distribution plans in operation

N/A

The last date(s) for receipt of election notices for the +dividend or distribution plans

N/A

9. NTA backing

	Current Period 2019 Cents per Share	Previous Period 2018 Cents per Share
Net tangible asset backing per ordinary share	14	19

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

Controlled entities

	Country of Incorporation	Percentage Owned	Date Control Gained
N/A			

11. Details of associates and joint venture entities

N/A

12. Significant information

Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position:

Please refer to section 2.6 above for information on the Group's financial performance.

13. Foreign entities set of accounting standards used in compiling the report (IAS)

The Company is not a foreign entity. Australian Accounting Standards have been applied consistently across all entities in the Group.

14. Commentary on the results for the period

14.1 Earnings per security (EPS)

	Current Period 2019	Previous Period 2018
Basic Loss per share	(8.78 cents)	(6.93 cents)

14.2 Returns to shareholders (Including distributions and buy backs)

	Current Period 2019 \$	Previous Period 2018 \$
Ordinary securities	-	-
Preference securities	-	-
Other equity instruments	-	-
Total	-	-

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14.3 Significant features of operating performance

Please refer to section 2.6 above for information on the Group's financial performance.

14.4 Segment Information

Management identifies its operating segments based on the Group's service lines, which represent the main products and services provided by the Group. The Group's two (2) main operating segments are:

- a) manufacture and distribution of hydroponics **equipment, materials and nutrients**; and
- b) development and delivery of **medicinal cannabis**.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

The main source of revenue for these operating segments in the year to 31 December 2019 is from distribution of hydroponics equipment, materials and nutrients. The revenues and profit generated by each of the Group's operating segments and segment assets are summarised as follows:

	Hydroponics Equipment, Materials and Nutrients 31 Dec 2019 \$	Medicinal Cannabis 31 Dec 2019 \$	Unallocated 31 Dec 2019 \$	Total 31 Dec 2019 \$
Revenue				
External sales	4,742,151	50,107	-	4,792,258
Other	-	278,363	13,711	292,074
Total segment revenue	4,742,151	328,470	13,711	5,084,332
Segment operating result	157,641	(3,922,438)	(7,914,385)	(11,679,182)
Segment assets	3,249,857	20,215,459	4,372,416	27,837,732

	31 Dec 2018 \$	31 Dec 2018 \$	31 Dec 2018 \$	31 Dec 2018 \$
Revenue				
External sales	2,663,279	815	-	2,664,094
Other	-	-	-	-
Total segment revenue	2,663,279	815	-	2,664,094
Segment operating result	(230,721)	(1,766,562)	(6,613,987)	(8,611,270)
Segment assets	2,443,541	20,237,833	10,065,038	32,746,412

14.5 Report on trends in performance

Cashflows

- CMP cash receipts experienced a 83% year-on-year growth thanks to a broadening product offering and expansion across the Canadian market;
- Overall operating cash outflows experienced a 34% increase due to continued expansion of operations.

Revenue

- Revenues of CMP experiences a 80% year-on-year growth thanks to a broadening product offering and expansion across the Canadian market

Expenses

- Cost of goods have increased proportionate to revenues due to sales mix, the gross margin decreased by 5% to 24% from FY18;
- Significant corporate and consulting expenditure was incurred in FY19 as the Group continued to progress its operations in Bundaberg and Southport;
- Employee benefits expenses have increased 50% from FY18 to \$2.37m due to Canndeo and THC Pharma operations commissioning, both of which require substantial personnel;
- A \$0.9m impairment expense has been recognised in the year on performance shares issued to vendors Canndeo. These shares have either lapsed without converting or it is the Directors' opinion that they will lapse without converting;
- Another \$1.05m impairment expense was recognised in the year on intellectual property acquired from Pegasus Agriculture Pty Ltd. The IP is for an epigenetic process in which organisms respond to environmental stress. Management has prudently impaired the carrying value of the IP in the current financial period. This does not in any way change the ownership or rights of the Group over the IP;
- A further \$0.48m impairment was recognised on settlement of loan receivables;
- General administration and overheads have increased as a result of the Group's continued expansion across multiple sites.

Balance Sheet

- A \$1.05m impairment expense was recognised in the year on intellectual property acquired from Pegasus Agriculture Pty Ltd. The IP is for an epigenetic process in which organisms respond to environmental stress. Management has prudently impaired the carrying value of the IP in the current financial period. This does not in any way change the ownership or rights of the Group over the IP;
- A \$0.9m impairment of goodwill has been recognised in the year on performance shares issued to vendors of Canndeo. These shares have either lapsed without converting or it is the Directors' opinion that they will lapse without converting;
- Right of use assets and finance lease liabilities increased due to THC Global signing a new office lease in Sydney;
- Non-current receivables reduced significantly on settlement of \$1.74m loans receivable from former KMP's. Cash receipt on settlement was \$1.26m with the balance recognised as an impairment expense.

14.6 Report any factors which have affected the results during the reporting period or which are likely to affect results in the future, including those where the effect could not be quantified.

N/A

Any other information required to be disclosed to enable the reader to compare the information presented with equivalent information for previous periods. This must include information needed by an investor to make an informed assessment of the entity's activities and results.

N/A

15. Compliance statement

This report is based on accounts to which one of the following applies.
(Tick one)

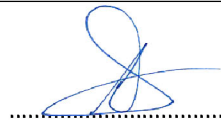
- | | | | |
|-------------------------------------|--|--------------------------|---|
| <input type="checkbox"/> | The accounts have been audited. | <input type="checkbox"/> | The accounts have been subject to review. |
| <input checked="" type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

16. If the accounts have not yet been audited or subject to audit review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

The report is based upon the accounts which are in the process of being audited, and it is unlikely that there will be any dispute or qualification.

16. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:

N/A

Sign here: 
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Date: 28 February 2020

Print name: Henry Kinstlinger

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