

ASX ANNOUNCEMENT

ASX:YPB | 28 February 2023

YPB records best annual operating result

- **2022 smallest loss in company's history**
- **Loss reduced 13% on prior year**
- **Cash used in operations reduced 19% on prior year**
- **Tight cost control key driver with revenues covid impacted**
- **Focused drive towards profitability in 2023**

Authentication and consumer engagement solutions creator **YPB Group Limited (ASX: YPB)** presents financial highlights for the year to 31 December 2022.

Pleasing further progress toward the critical goal of profitability was made in 2022 with total comprehensive loss 13% lower than that of 2021, and net operating cash consumption 19% lower.

Despite this improvement, the result fell short of board and management ambitions. Covid hurt revenue by reducing normal order flows and hampering new business development.

Nevertheless, there was consolation in strong execution of controllable elements, with significant advances in cost control, product development, and sales and marketing strategy.

This review will discuss the notable elements of the financial result, with a more comprehensive discussion of key achievements across the business to follow in the Annual Report in March 2023.

2022 loss reduced due to cost control despite revenue fall

Operating loss before foreign exchange improved 12% to \$4.0m in 2022 down from \$4.6m in 2021. Total comprehensive loss was 13% better at \$3.7m in 2022, down from \$4.3m.

Most importantly, cashflow from operating activities was 19% improved at \$2.9m in 2022, down from \$3.5m in the prior year.

Tight cost control drove the improvements which were achieved despite lower revenue.

Revenue fell 16% in 2022 to \$556k, down from \$664k in 2021. This fall was almost entirely due to Covid policies, travel restrictions and "lockdowns" in China curbing demand for YPB's products. Not only was normal order flow restricted, but anticipated new business was slow to eventuate.

More generally, Covid disruptions severely hampered new business development in all geographies as customers battled to keep their own operations sailing through a range of supply chain and demand gales. This environment eased somewhat later in 2022, although China only started to improve in 2023 and its 're-opening' has been slow despite the abandonment of zero Covid policies. YPB's China team will be conducting in-person meetings with key accounts in March for in almost two years to re-invigorate its order book and plan new projects with customers.

Despite 2022's revenue result, tight cost control led to cost falling faster in dollar terms (although lower in percentage terms) than the revenue fall, leading to the reduced loss. Total costs ex share-based payments and foreign exchange impacts fell 11% or \$332k from the prior year.

The two largest cost item swings were a fall in staff costs of \$415k and a rise in R&D costs of \$300k. Most of this change was a reclassification of salaries of R&D personnel from "staff" to "R&D" to present a more accurate picture of the company's investment in product development. In aggregate, staff and R&D costs fell \$115k or 5.4%.

The apparent rise in R&D spend in fact disguised greater R&D investment efficiency, as on a like-for-like basis (removing the reclassification of staff costs) R&D fell 36% due to in-housing of the R&D effort, achieving both lower cost and greater control. Three further important points regarding the R&D investment are:

- Its productivity improved significantly over the year with greater advances in product effectiveness and commerciality per dollar of investment than had been achieved in any prior year.
- There was no revenue benefit in 2022 from the achievement of a deeper, broader and more functional product suite, with payoffs to become apparent in the current year.
- YPB's R&D accounting policy is very conservative with all incremental investment being expensed as incurred, rather than being capitalised as an asset. In fact, the only intangible asset on the balance sheet is the original acquisition cost of the novel MotifMicro technology, which has been partially written down due to covid-related delays in achieving the anticipated commerciality. Arguably, the book value of MotifMicro has actually increased as YPB's developments such as smartphone readability driven by artificial intelligence machine learning, the MotifMicro app, and initial marketing successes have all added value to the acquired intellectual property. YPB also has a product suite with a history and future of revenue generation that is carried at zero value on the balance sheet.

On a like for like basis (pre R&D re-classification), staff costs in 2022 were effectively flat on 2021 but were inflated by:

- The payment of entitlements upon departure of the CFO and other higher cost Australian based finance staff mid-year. Without these once-off items, already significantly reduced staff costs would have fallen a further 10%. In 2023, the finance function, now based in Thailand, will operate at lower cost than in 2022.
- The contracting of Brand-Armor in early 2022 to drive global sales of YPB's product suite. Unfortunately, this proved a significant expense without return with results below expectations, and the relationship was terminated for non-delivery toward the end of 2022 at no further cost to YPB. If the right authentication industry talent can be found, this cost will be reinvested in 2023 in sales capabilities focused in either USA and/or EAMA.

Other profit and loss items of note were:

- Gross margin (revenue less cost-of-goods sold) steady at 95% between 2022 and 2021. This high gross margin reflects the intellectual property strength of YPB's products. It is also central to the drive toward profitability with each incremental sales dollar contributing almost entirely to profit.
- Depreciation falling \$78k or 77%, with a move to a smaller office seeing surplus fixed assets sold. This was partially offset by a \$16k increase in rental expense, with Thailand up due to new premises and no covid rent holiday in 2022, and China down due to government rent subsidies during lockdown.

- Investor relations falling \$193k or 60% as expensive but ineffective IR programs were discontinued.
- Regulatory fees down \$66k or 35% due to lower ASX and ASIC costs.
- Travel costs rising \$91k from an artificially low covid-restricted base, as more normal travel resumed. Pleasingly, this spend has proven very effective with attendance at trade shows producing important new business opportunities, and greater staff cohesion and enthusiasm yielding tangible benefits.
- A final P&L item of note was a rise in share-based payments from \$8k in 2021 to \$377k in 2022. This non-cash remuneration acknowledged the vital contributions of key personnel and is foundational to the protection of shareholder value by keeping key contributors dedicated to the company's success.

Balance sheet stable, funding support from Executive Chair

The unfortunate fact of YPB being still early in its revenue development, is that the company is cashflow negative and reliant on capital injections to fund operations. Yet the benefit of the cost drive and greater cash efficiency achieved in 2022, is that the company was able to issue \$1.5m less in new equity in 2022, totalling \$2m, than in the prior year. Being highly conscious of the impact of new equity issuance on shareholder value, the board always strives to minimise equity dilution.

Unfortunately, however, the 2022 tech sector rout and delays in achieving the company's promise has seen its share price languish. This caused regrettable equity dilution, with a share consolidation recommended by the company's key capital markets adviser having a particularly dire and opposite-to-predicted impact on the company's value. The board and management are highly conscious of this loss of value and are dedicated to its restoration.

The company briefly took on \$500k of short-term debt in 2022 which was repaid quickly. More significantly, the Executive Chairman personally secured the company's future in Q4 2022 at a time when capital markets were closed to small, unprofitable tech companies, by providing \$1m funding in the form of a convertible note which appears on the balance sheet as "Financial liabilities Borrowings – current". This funding and its terms were approved by shareholders at general meeting in December 2022.

There were few other movements on the balance sheet other than an increase in trade and other payables of \$558k. The majority of the increase was in the "other" category and does not reflect a blowout in trade payables, nor does it infer any increased risk to the company.

Technical and business development achievements significant, particularly enhanced connectivity

As reported through 2022, progress in both authentication and consumer engagement technologies was again excellent in 2022. A range of innovations concluded during the year have expanded the company's revenue opportunities via a broader product range and application development for new markets. At the same time, the value to customers has increased through greater data richness following integration of all products into the YPB Connect Global Dashboard.

This significance of this latter innovation can't be over-emphasised. YPB's entire product suite now has connectivity to YPB Connect, enabling the generation and analysis of original data invaluable to company's trying to control supply chains and understand end consumers. Authentication scans generate rich, coal-face data in real time, and this integrated authentication and engagement data capability is increasing the commercial appeal of all YPB's products.

In addition to the technical advances, new business development made tremendous progress in outbound marketing skill and the company's ability to generate potentially lucrative inbound leads, particularly in H2 2022. While commercial progress in 2022 was clearly disappointing due primarily to covid restrictions, the payoff from the upgraded marketing capability should yield tangible benefits in 2023.

The forthcoming Annual Report will detail tech and business development progress more fully.

YPB Executive Chairman and Group CEO John Houston said: *"While 2022 undoubtedly had its frustrations and disappointments in not achieving the planned significant new business uplift, the team delivered a credible result by tightly controlling costs and creatively servicing clients in difficult circumstances.*

The progress made in the key facets of the business under our control was excellent, far better than any prior year, particularly given the abnormal external challenges.

In a hopefully more benign business environment, our goal for 2023 is to capitalise on 2022's product upgrades and greater sales effectiveness to drive revenues well above costs. Our whole team is galvanised to restore and grow shareholder wealth.

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

Ends.

For further information please contact:

YPB investor enquiries
investors@ypbsystems.com

Ben Jarvis
0413 150 448
Ben.jarvis@mdir.com.au
Six Degrees Investor Relations

About YPB Group

YPB Group Limited (ASX: YPB) is listed on the Australian Stock Exchange and has developed and sells of a suite of physical, digital, and AI-based authentication technologies with a vast range of applications. Our solutions can easily authenticate a myriad of items, such as FMCG (fast-moving consumer goods) products, official identification documents, pharmaceuticals, nutraceuticals, dairy products, tax stamps, transactions - and even people.

Our solutions trigger engagement with consumers in a consented, cost-effective, and direct manner. Our proprietary technologies utilize Bluetooth and/or smartphones to capture and analyse invaluable authentication data in our Connect™ global intelligence platform, providing real-time, first-party, and worldwide market intelligence data. This actionable data enables brands to establish digital and direct marketing channels with their customers.

The markets YPB is targeting comprise many billions of items, and this number is growing rapidly, providing YPB with significant growth opportunities for its authentication and consumer engagement. To learn more please visit: ypbsystems.com

1. Company details

Name of entity: YPB Group Ltd

ACN: 108 649 421

Reporting period: For the year ended 31 December 2022

Previous period: For the year ended 31 December 2021

2. Results for announcement to the market

					2022	2021
		\$	%		\$	\$
Revenues from ordinary activities	down	107,807	16%	to	555,941	663,748
Loss from ordinary activities after tax for the year attributable to the owners of YPB Group Ltd	down	211,656	6%	to	(3,301,603)	(3,513,259)
Loss for the year attributable to the owners of YPB Group Ltd	down	211,656	6%	to	(3,301,603)	(3,513,259)

Comments

The loss for YPB Group Ltd ('the Consolidated Entity'), after providing for income tax amounted to \$3,301,603 (2021: \$3,513,259). Revenue for the year was \$555,941 (2021: \$663,748) which represents a 16% decrease from the prior year.

3. Net tangible assets/(liabilities)

	2022 Cents	2021 Cents
Net tangible assets/(liabilities) per ordinary security	(0.365)	(0.001)

The net tangible assets/(liabilities) backing per ordinary security of (0.365) cents.

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

4. Gain and loss of control over entities

On 16 January 2022, the Consolidated Entity lost control of nTouch Agency Pty Ltd, one non-operating dormant entity domiciled in Australia, as it was deregistered with ASIC as of that date.

Further details are contained in Note 15 to the financial statements.

5. Dividends

Current period

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

Previous period

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

6. Dividend reinvestment plans

There are no dividend reinvestment plans for the year ended 31 December 2022 (2021: Nil).

7. Details of associates and joint venture entities

No changes since the previous annual report was released.

8. Foreign entities

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

There has been no change in foreign-owned subsidiaries to those reported for the year ended 31 December 2022. All group entities comply with International Financial Reporting Standards ('IFRS').

9. Audit qualification or review

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

The financial statements for the year ended 31 December 2022 are in the process of being audited.

10. Attachments

Details of attachment (if any):

Not applicable.

Signed



John Houston

Date: 28 February 2023



YPB Group Ltd

ACN: 108 649 421

Full Year Preliminary Report 31 December 2022

YPB Group Ltd
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For the year-ended 31 December 2022

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YPB Group Ltd

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2022

	Note	2022 \$	2021 \$
Revenue	2	555,941	663,748
Expenses			
Consulting		(786,354)	(702,036)
Depreciation and amortisation expense		(22,920)	(101,393)
Directors' fees		(80,000)	(80,000)
Employee benefits expense		(1,251,619)	(1,667,256)
Finance costs	3	(74,631)	(227,009)
Impairment of goodwill and other intangible assets		-	(502,982)
Marketing costs		(49,711)	(43,390)
Investor relations		(128,780)	(321,713)
Production costs		(26,824)	(32,440)
Professional fees		(211,362)	(184,486)
Rental expenses		(99,260)	(84,517)
Research and development costs		(683,828)	(384,094)
Regulatory expenses		(121,071)	(186,773)
Share-based payments		(377,416)	(8,078)
Travelling expenses		(129,572)	(38,501)
Other expenses		(549,206)	(748,713)
Gain/(loss) on extinguishment of financial liabilities via equity settlement		-	44,657
Foreign exchange profit		735,010	1,091,717
Loss before income tax	4	(3,301,603)	(3,513,259)
Income tax (expense)/benefit		-	-
Loss after income tax from continuing operations for the year attributable to the owners of YPB Group Ltd		(3,301,603)	(3,513,259)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(415,180)	(749,194)
Other comprehensive income for the full-year, net of tax		(415,180)	(749,194)
Total comprehensive loss for the year period attributable to the owners of YPB Group Ltd		(3,716,783)	(4,262,453)
		Cents	Cents
Basic and diluted earnings per share	17	(1.02)	(0.07)

The above consolidated 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 2022

	Note	2022 \$	2021 \$
Assets			
Current assets			
Cash and cash equivalents	5	641,408	531,477
Trade and other receivables	6	328,987	321,403
Other assets	7	374,685	329,695
Inventories	8	193,464	209,277
		1,538,544	1,391,852
Non-current assets			
Plant and equipment	9	31,821	50,106
Right-of-use assets	9	-	-
Intangibles	10	5,804,800	5,419,929
		5,836,621	5,470,035
Total assets		7,375,165	6,861,887
Liabilities			
Current liabilities			
Trade and other payables	11	2,033,793	1,476,033
Financial liabilities	12	1,021,085	-
		3,054,878	1,476,033
Total liabilities		3,054,878	1,476,033
Net assets		4,320,287	5,385,854
Equity			
Issued capital	13	83,877,039	81,773,800
Reserves	14	2,406,357	3,040,859
Accumulated losses		(81,963,109)	(79,428,805)
Total equity		4,320,287	5,385,854

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

YPB Group Ltd
Consolidated statement of changes in equity
For the year ended 31 December 2022

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Issued options reserve \$	Share-based payment reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2022	81,773,800	2,192,710	767,344	80,805	(79,428,805)	5,385,854
Loss after income tax benefit for the year	-	-	-	-	(3,301,648)	(3,301,648)
Other comprehensive income for the year, net of tax	-	(415,180)	-	-	-	(415,180)
Total comprehensive loss for the year	-	(415,180)	-	-	(3,301,648)	(3,716,828)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued, net of transaction costs	2,103,239	-	-	-	-	2,103,239
Performance rights exercised during the year	-	-	-	(80,805)	-	(80,805)
Performance rights issued during the year	-	-	-	418,827	-	418,827
Options granted during the year	-	-	210,000	-	-	210,000
Options lapsed during the year	-	-	(767,344)	-	767,344	-
Balance at 31 December 2022	83,877,039	1,777,530	210,000	418,827	(81,963,109)	4,320,287

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

YPB Group Ltd
Consolidated statement of changes in equity
For the year ended 31 December 2022

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Issued options reserve \$	Share-based payment reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 January 2021	77,664,696	2,941,904	2,040,000	-	(77,983,762)	4,662,838
Prior period adjustment ¹	-	-	-	-	28,216	28,216
Adjusted balance at 1 January 2021	77,664,696	2,941,904	2,040,000	-	(77,955,546)	4,691,054
Loss after income tax benefit for the year	-	-	-	-	(3,513,259)	(3,513,259)
Other comprehensive income for the year, net of tax	-	(749,194)	-	-	-	(749,194)
Total comprehensive loss for the year	-	(749,194)	-	-	(3,513,259)	(4,262,453)
<i>Transactions with owners in their capacity as owners:</i>						
Shares issued, net of transaction costs	2,985,259	-	-	-	-	2,985,259
Performance rights issued during the year	-	-	-	80,805	-	80,805
Options granted during the year	-	-	767,344	-	-	767,344
Options exercised during the year	750,000	-	(1,275,000)	-	1,275,000	750,000
Options lapsed during the year	-	-	(765,000)	-	765,000	-
Share-based payments	373,845	-	-	-	-	373,845
Balance at 31 December 2021	81,773,800	2,192,710	767,344	80,805	(79,428,805)	5,385,854

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

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

YPB Group Ltd
Consolidated statement of cash flows
For the year ended 31 December 2022

	Note	2022 \$	2021 \$
Cash flows from operating activities			
Receipts from customers		500,981	669,109
Payments to suppliers and employees		(3,300,679)	(4,006,904)
Interest received		2,385	1,657
Finance costs		(53,546)	(196,628)
Net cash used in operating activities	16	(2,850,859)	(3,532,766)
Cash flows from investing activities			
Payments for plant and equipment		(3,842)	(12,000)
Proceeds from disposal of plant and equipment		235	14,000
Funds on deposit in escrow		-	(70,000)
Net cash used in investing activities		(3,607)	(68,000)
Cash flows from financing activities			
Proceeds from issue of shares (net of costs)		2,030,384	3,518,448
Proceeds from exercise of options		-	750,000
Proceeds from borrowings		1,500,000	-
Repayment of borrowings		(500,000)	(1,614,992)
Payment of lease liabilities		-	(69,246)
Net cash from financing activities		3,030,384	2,584,210
Net (decrease)/increase in cash and cash equivalents		175,918	(1,016,556)
Cash and cash equivalents at the beginning of the financial year		531,477	1,558,429
Effect of movements in exchange rates on cash held		(65,987)	(10,396)
Cash and cash equivalents at the end of the financial year	5	641,408	531,477

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

YPB Group Ltd
Notes to the consolidated financial statements
For the year ended 31 December 2022

Note 1. 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 2022, 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 represented by one business segment.

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

- Digital engagement platform that provides brand engagement with end consumers to promote product authenticity;
- Covert forensic products which are invisible particles ('tracers') fused into a product or packaging during or after the manufacturing process and are detectable using YPB's proprietary scanner or smartphone mobile devices;
- Forensic laboratory services for the examination of counterfeit products; and
- Security consulting services provided to governments, corporations and intellectual property owners for the deterrence of counterfeiting, grey markets, product diversions and fraud.

(a) Geographical information

2022

Reportable segments

	Australia	People's Republic of China	Thailand	United States of America	Total
<i>In \$</i>					
External revenue	296,464	254,690	-	-	551,154
Interest income	2,372	-	13	-	2,385
Other income	175	2,227	-	-	2,402
Total revenue	299,011	256,917	13	-	555,941

YPB Group Ltd
Notes to the consolidated financial statements
For the year ended 31 December 2022

2021

Reportable segments

	Australia	People's Republic of China	Thailand	United States of America	Total
<i>In \$</i>					
External revenue	317,130	321,599	-	-	638,729
Interest income	1,435	-	-	222	1,657
Other income	-	6,187	17,175	-	23,362
Total revenue	318,565	327,786	17,175	222	663,748

(b) Assets

2022

Reportable segments

	Australia	People's Republic of China	Thailand	United States of America	Total
<i>In \$</i>					
Current assets	1,050,142	307,769	180,187	446	1,538,544
Non-current assets	-	10,783	16,927	5,808,911	5,836,621
Total assets	1,050,142	318,552	197,114	5,809,357	7,375,165

2021

Reportable segments

	Australia	People's Republic of China	Thailand	United States of America	Total
<i>In \$</i>					
Current assets	755,426	307,210	328,800	416	1,391,852
Non-current assets	-	11,920	29,585	5,428,530	5,470,035
Total assets	755,426	319,130	358,385	5,428,946	6,861,887

Note 2. Revenue

	2022 \$	2021 \$
<i>Revenue</i>		
Sale of goods and services		
- Digital engagement platform	119,076	295,229
- Covert forensic products	406,451	334,924
- Brand protection labelling solutions	25,627	8,576
	551,154	638,729
<i>Other revenue</i>		
Interest	2,385	1,657
Other income	2,402	23,362
	555,941	663,748

YPB Group Ltd
Notes to the consolidated financial statements
For the year ended 31 December 2022

Note 3. Finance cost

		Consolidated	
	Note	2022	2021
		\$	\$
Interest and finance charges paid/payable for lease liabilities and financial liabilities not at fair value through profit or loss	4	74,631	227,009
		<u>74,631</u>	<u>227,009</u>

Note 4. Loss for the year

The loss for the year includes the following expenses:

		Consolidated	
	Note	2022	2021
		\$	\$
Finance costs	3	74,631	227,009
Research and development costs		683,828	384,094
Depreciation and amortisation		22,920	101,393
Inventories written off		-	(2,069)
Impairment of intangible assets		-	502,982
Rental expense on operating leases – minimum lease payments		99,260	84,517
Loss/(gain) on extinguishment of financial liabilities via equity settlement		-	(44,657)
		<u>880,639</u>	<u>1,253,269</u>

Note 5. Cash and cash equivalents

	Consolidated	
	2022	2021
	\$	\$
Cash on hand	1,318	1,739
Cash at bank	640,090	529,738
	<u>641,408</u>	<u>531,477</u>

Note 6. Trade and other receivables

	Consolidated	
	2022	2021
	\$	\$
Trade receivables	215,437	130,433
Less: allowance for doubtful debts	(73,243)	(69,840)
	<u>142,194</u>	<u>60,593</u>

YPB Group Ltd
Notes to the consolidated financial statements
For the year ended 31 December 2022

GST/VAT receivables	89,355	166,588
Other receivables	97,438	94,222
	<u>328,987</u>	<u>321,403</u>

Note 7. Other assets

	Consolidated 2022	2021
	\$	\$
Escrow account – (i)	200,929	200,929
Rental deposits	34,485	34,138
Prepaid rent	10,492	4,421
Prepayments	128,779	90,207
	<u>374,685</u>	<u>329,695</u>

(i): No additional deposit during the year (2021: \$70,000) into an escrow account for the purpose of a commercial dispute against an external party. The monies are placed in an interest-bearing account for a period of twelve months from the date of deposit. Refer to Note 18 for and update on this matter.

Note 8. Inventories

	Consolidated 2022	2021
	\$	\$
Finished goods – at cost	193,464	209,277
Less: provision for slow-moving stock	-	-
	<u>193,464</u>	<u>209,277</u>

Note 9. Plant and equipment & Right-of-use assets

	Consolidated 2022	2021
	\$	\$
Plant and equipment – at cost	213,241	206,217
Less: accumulated depreciation	(181,420)	(156,111)
	<u>31,821</u>	<u>50,106</u>
Right-of-use asset – at cost	-	380,567
Less: accumulated depreciation	-	(380,567)
	<u>-</u>	<u>-</u>

Reconciliations

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

YPB Group Ltd
Notes to the consolidated financial statements
For the year ended 31 December 2022

	Right-of-use assets	Plant and equipment	Total
Consolidated	\$	\$	\$
Balance at 1 January 2022	-	50,106	50,106
Additions	-	3,842	3,842
Disposals	-	(247)	(247)
Depreciation expense	-	(22,927)	(22,927)
Exchange differences	-	1,047	1,047
Balance at 31 December 2022	-	31,821	31,821
Balance at 1 January 2021	78,365	60,757	139,122
Additions	-	12,000	12,000
Disposals	-	(18,017)	(18,017)
Depreciation expense	(75,235)	(25,404)	(100,639)
Exchange differences	(3,130)	20,770	17,640
Balance at 31 December 2021	-	50,106	50,106

Note 10. Intangibles

	Consolidated 2022	2021
	\$	\$
Goodwill – at cost	3,089,466	3,089,466
Less: Accumulated impairment losses	(3,089,466)	(3,089,466)
	-	-
Intellectual property – at cost	16,250,550	16,250,550
Less: Accumulated amortisation	(4,942,153)	(4,942,153)
Less: Accumulated impairment losses	(11,308,397)	(11,308,397)
	-	-
Customer relationships – at cost	206,000	206,000
Less: Accumulated amortisation	(28,000)	(28,000)
Less: Accumulated impairment losses	(178,000)	(178,000)
	-	-
Patent licence rights – at cost	8,797,048	8,213,892
Less: Accumulated impairment losses	(2,992,248)	(2,793,963)
	5,804,800	5,419,929

Reconciliations

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

Consolidated	Patent licence rights	Total
	\$	\$

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Balance at 31 December 2021	5,419,929	5,419,929
Balance at 1 January 2022	5,419,929	5,419,929
Impairment loss	-	-
Effect of movement in exchange rates	384,871	384,871
Balance at 31 December 2022	5,804,800	5,804,800

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 consolidated statement of profit or loss and other comprehensive income.

Patent Licence Rights

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

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

As the technology is still in the development phase and under commercial trials during the period ended 31 December 2022, the patent licence rights have not commenced amortisation, however impairment adjustments have been recorded in prior years to its carrying amount. MotifMicro's development in 2022 was advanced through a number of technological achievements together with customers that signed first-adopter agreements to expedite its commercialisation in the market. The company is pursuing further opportunities to commercially release MotifMicro in the near future.

Impairment testing indicated that the recoverable amount of the patent licence rights exceeds the carrying amount and therefore no impairment is considered necessary as at 31 December 2022. The valuation methodology ('value in use' or 'VIU') model reflects updated forecasts and progress made on the MotifMicro technology.

The following key assumptions and results arising from the VIU methodology applied are as follows:

- Revenue growth from conversion of sales pipeline of \$271,040 for FY2023 with an annual long-term growth rate of 12.5% until 2027 that follows the industry growth rate with a long-term annual growth rate of 2% thereafter;
- Discounted cash flow modelling to 2034 (the expiry date of the patent licence) with no terminal value;
- A WACC of 26.81% (post-tax) assuming a long-term debt/equity ratio of nil; and
- The group securing sufficient funding in future periods to continue as a going concern.

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Note 11. Trade and other payables

	Consolidated	
	2022	2021
	\$	\$
Trade payables	982,221	658,490
Other payables and accruals	1,051,572	817,543
	<u>2,033,793</u>	<u>1,476,033</u>

Note 12. Financial liabilities

	Consolidated	
	2022	2021
	\$	\$
Related party loans - (i)	1,021,085	-
	<u>1,021,085</u>	<u>-</u>

(i): During the year, the Consolidated Entity obtained a total of \$1,000,000 (2021: Nil) of short-term borrowings from a related party, repayable within 12 months from the commencement date, and at an interest of 16.73% per annum (or part thereof).

Note 13. Equity – Issued capital

Consolidated	2022	2021	2022	2021
	Shares	Shares	\$	\$
Ordinary shares – fully paid	406,546,153	6,117,833,701	83,877,039	81,773,800

Movements in ordinary share capital

Details	Date	Shares	\$
Balance	1 January 2022	6,117,833,701	81,773,800
Consolidation 25:1	30 May 2022	244,713,348	81,773,800
Balance	30 May 2022	244,713,348	81,773,800
Conversion of options	30 May 2022	1,454,922	72,727
Share placements	5 July 2022	160,377,883	2,030,512
Balance	31 December 2022	<u>406,546,153</u>	<u>83,877,039</u>

Ordinary shares

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Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital. On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 14. Equity – Reserves

		Consolidated	
	Note	2022	2021
		\$	\$
Issued options reserve	(a)	210,000	767,344
Share-based payment reserve	(b)	418,827	80,805
Foreign currency translation reserve	(c)	1,777,530	2,192,710
		<u>2,406,357</u>	<u>3,040,859</u>

(a) Issued options reserve

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

Details	Date	Options	\$
Balance	1 January 2022	3,464,336,576	767,344
Options expired	23 February 2022	(3,400,336,576)	(767,344)
Balance	23 February 2022	64,000,000	-
Consolidated 25:1	30 May 2022	2,560,000	-
Options granted to investors of capital raises	5 July 2022	140,000,000	210,000
Balance	31 December 2022	<u>142,560,000</u>	<u>210,000</u>

(b) Share-based payment 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 rendered.

Details	Date	\$
Balance	1 January 2022	80,805
Performance Rights reversed	29 April 2022	(8,078)
Performance Rights issued under share-based payments	29 April 2022	338,827
Performance Rights converted to shares	30 May 2022	(72,727)
Performance Rights issued under share-based payments	30 May 2022	80,000
Balance	31 December 2022	<u>418,827</u>

(c) Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. Monetary items receivable from or payable to foreign operations whereby settlements to these

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receivables and payables are not planned nor likely to occur in the foreseeable future are classified as net investment in foreign operations. Exchange differences arising from monetary items that forms part of the Group's net investment in foreign operations are recognised as foreign currency translation reserve in equity.

Note 15. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities, and results of the following subsidiaries:

Name	Principal Place of Business / Country of Incorporation	Ownership Interest	
		2022	2021
		%	%
YPB Limited	Hong Kong	100	100
YPB Technology (Beijing) Ltd	People's Republic of China	100	100
Product ID & Quality Systems (Beijing) Ltd	People's Republic of China	100	100
YPB Group (USA) Inc.	USA	100	100
YPB Intellectual Product Protection Inc.	USA	100	100
YPB Group International Co., Ltd	Thailand	100	100
YPB Group Co., Ltd	Thailand	100	100
nTouch Pty Ltd	Australia	100	100
YPB Product Development Pty Ltd	Australia	100	100

During the year, the Consolidated Entity restructured the legal entity organisation structure, and the following subsidiary was deregistered as a result:

Name	Date of Deregistration	Principal Place of Business / Country of Incorporation	Ownership Interest	
			2022	2021
			%	%
nTouch Agency Pty Ltd	16 January 2022	Australia	-	100

Note 16. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2022	2021
	\$	\$
Loss after income tax benefit for the year	(3,301,603)	(3,513,259)
Adjustments for:		
Foreign exchange differences	(735,258)	(902,646)
Depreciation and amortisation expense	22,920	101,393
Impairment of intangible assets	-	502,982
Assets written off	247	-
Share-based payments	377,416	8,078
Finance costs	21,084	30,380
Equity-settled transactions	243,334	616,948
Net (gain)/loss on settlement of debts	-	(44,657)
Provision for slow-moving stocks	-	(2,068)
Change in operating assets and liabilities, net of the effects of purchase and disposals of subsidiaries:		
(Increase)/decrease in trade and other receivables	(7,584)	(9,124)
(Increase)/decrease in other assets	(44,990)	54,493
Decrease/(increase) in inventories	15,814	8,440
Increase/(decrease) in trade and other payables	557,761	(383,726)
Net cash used in operating activities	<u>(2,850,859)</u>	<u>(3,532,766)</u>

Note 17. Earnings per share

	2022	2021
	\$	\$
Loss after income tax attributable to the owners of YPB Group Limited	<u>(3,301,603)</u>	<u>(3,513,259)</u>
Weighted average number of ordinary shares used in calculating basic/diluted earnings per share	Number 324,221,583	Number 5,069,846,859
	Cents	Cents

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Basic/Diluted earnings per share	(1.02)	(0.07)
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There are 142,560,000 in share options issued but not included in diluted earnings per share as these would have an antidilutive effect on earnings per share. These potential ordinary shares are anti-dilutive as their conversion to ordinary shares would decrease loss per share. If these share options were included in the calculation of diluted earnings per share, the weighted average number of shares used in the denominator would be 475,958,118.

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Note 18. Subsequent events

The following events have occurred since 31 December 2022:

- On 20 January 2023, 200,000,000 unlisted options exercisable at \$0.005 were issued as consideration for the receipt of funds for convertible notes of \$1m. The unlisted options were provided to a related party (J F Houston Holdings Pty Ltd), who received the convertible notes. The options expire on 16 January 2026, and the convertible debt securities attract interest at 9% per annum. The issue of the convertible notes are pursuant to a subscription agreement entered into in October 2022 and were approved by shareholders at a general meeting of YPB held on 23 December 2022.
- On 27 February 2023, ALDUS PTY LTD and FMA HOLDINGS PTY LTD (Defendants) agreed to settle all matters between YPB Group Co Ltd (Plaintiff). Defendants paid the Plaintiff \$250,000. Additionally deposits totalling \$200,000 which had been placed into an escrow account to facilitate the proceedings were returned with accrued interest.

Other than the above, no matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.