

Rule 4.3A

Appendix 4E

Preliminary final report

Name of entity:

Yowie Group Ltd

1.

ABN or equivalent company
reference:

98 084 370 669

Reporting period:

Year ended 30 June 2019

Previous corresponding period:

Year ended 30 June 2018

2. Results for announcement to the market

**30 June 2019
US\$**

2.1	Revenue from ordinary activities	down	18%	to	14,425,071
2.2	Loss from ordinary activities for the period after tax attributable to members	down	7%	to	(4,600,283)
2.3	Net loss for the period attributable to members	down	7%	to	(4,600,283)
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:

Net sales

Global net sales for the year ended 30 June 2019 were US\$14.4 million, 18% lower than the previous corresponding period. The slowdown in sales is primarily due to increased significant competitive activity in the US. Several competitors made large investments to respond to the global surprise-inside competitor which launched in December 2017 and increased its investments again in November 2018. The effect of this heavy investment was the global surprise-inside competitor made large market share gains and is expanding its leadership as the #1 selling chocolate item. The Group's other major competitors' market share, despite increasing their own investments, were flat or declined. Other novelty competitors were down overall.

Despite the decline in sales during the current period, top lines sales are now being driven by new customer distribution in the US and AUS, investments in key customer retail programs and delivering more new products to grow brand awareness and expand shelf presence of the Yowie brand.

Loss before income tax

Loss before income tax for the year ended 30 June 2019 was US\$3.95 million, a 7% improvement compared to the previous year of US\$4.63 million. For detailed comparison to previous year result, please refer to Section 3.

EBITDA (Earnings before interest, taxes, depreciation and amortisation)

The Group made a significant improvement on EBITDA during the year compared to last year. The Group's EBITDA loss, before share-based payments expense, for the year ended 30 June 2019 was US\$2.8 million, a 44% improvement compared to EBITDA loss of US\$5 million in the previous year. This was achieved by better fiscal discipline, with a focus on cost-saving measure across all areas of the business.

Income tax expense

Income tax expense for the year ended 30 June 2019 of US\$0.65 million relates largely to the derecognition of deferred tax assets which is a non-cash expense.

Cash flow

The Group also made a considerable improvement in its operating cash flow during the year.

Operating cash outflows for the year ended 30 June 2019 were US\$1.66 million, a 70% improvement compared to the previous year's cash outflows of US\$5.5 million. The improvement in operating cash flow is consistent with the improvement in EBITDA discussed above.

Impairment of non-current assets

The Group has recorded an impairment expense of US\$1.3 million during the year ended 30 June 2019 to adjust the net book value of idle production equipment. The production equipment became idle during the year as the Group commissioned new equipment which results in an improved efficiency of the production plant and lower production cost.

Further to this, the Group is required, under Australian Accounting Standards, to perform impairment testing when impairment indicators are identified.

As at 30 June 2019, impairment indicators have been identified, including the fact that the Group's market capitalization is less than the net assets of the Group. At the date of this report, the impairment testing is currently in progress and the Group will update the market once the outcome of this impairment testing is known.

**3. Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019**

	Note	Consolidated	
		2019 US\$	2018 US\$
Sale of goods		14,425,071	17,519,314
Cost of sales		<u>(7,437,662)</u>	<u>(9,077,116)</u>
Gross profit		6,987,409	8,442,198
Selling and distribution		(4,477,735)	(3,823,039)
Marketing		(1,439,933)	(3,515,736)
Administration	1	(3,595,710)	(4,099,925)
Other income		276,601	87,286
Foreign exchange gains / (losses)		227,431	145,914
Write-down of inventory	3	(633,463)	(1,134,364)
(Impairment) / reversal of impairment of plant and equipment	4	(1,292,837)	472,859
Impairment of intangible assets		-	<u>(1,203,393)</u>
Loss before income tax		(3,948,237)	(4,628,200)
Income tax expense		(652,046)	<u>(298,620)</u>
Loss after income tax for the year		(4,600,283)	(4,926,820)
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Movement in foreign currency translation reserve		(415,932)	<u>(275,306)</u>
Total comprehensive loss for the year net of tax attributable to members of the Company		(5,016,215)	<u><u>(5,202,126)</u></u>

4. Consolidated Statement of Financial Position
As at 30 June 2019

	Note	Consolidated	
		2019 US\$	2018 US\$
Current Assets			
Cash and cash equivalents		16,360,661	19,466,956
Trade and other receivables		1,219,425	2,870,777
Prepayments	2	1,384,994	1,621,423
Inventories	3	4,193,416	3,307,782
Total Current Assets		23,158,496	27,266,938
Non-Current Assets			
Plant and equipment	4	3,900,368	4,447,954
Intangible assets	5	845,792	860,931
Deferred tax assets		-	680,604
Total Non-Current Assets		4,746,160	5,989,489
Total Assets		27,904,656	33,256,427
Current Liabilities			
Trade and other payables	6	3,316,682	3,566,675
Provisions		16,023	3,548
Current tax liabilities		23,239	51,298
Unearned income		-	45,684
Total Current Liabilities		3,355,944	3,667,205
Total Liabilities		3,355,944	3,667,205
Net Assets		24,548,712	29,589,222
Equity			
Issued capital		55,703,545	55,635,991
Reserves		(754,487)	23,383
Accumulated losses		(30,400,346)	(26,070,152)
Total Equity		24,548,712	29,589,222

**5. Consolidated Statement of Cash Flows
For the year ended 30 June 2019**

	Note	Consolidated	
		2019 US\$	2018 US\$
Cash flow from operating activities			
Receipts from customers		15,259,346	17,752,274
Other receipts		6,053	9,344
Payments to suppliers and employees		(17,197,765)	(23,501,214)
Interest received		262,800	79,231
Income taxes paid		5,107	164,634
Net cash outflows used in operating activities		(1,664,459)	(5,495,731)
Cash flow from investing activities			
Payments for security deposit		70,841	-
Payments for plant and equipment		(928,073)	(728,863)
Payments for intangible assets		(431,836)	(1,059,241)
Net cash outflows used in investing activities		(1,289,068)	(1,788,104)
Cash flow from financing activities			
Payment of share issue transaction costs		(2,954)	(9,712)
Net cash outflows used in financing activities		(2,954)	(9,712)
Net decrease in cash and cash equivalents		(2,956,481)	(7,293,547)
Cash and cash equivalents at beginning of the year		19,466,956	26,877,580
Effect of foreign exchange movements		(149,814)	(117,077)
Cash and cash equivalents at end of the year		16,360,661	19,466,956

6. Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Issued capital	Share-based payment reserve	Consolidated Foreign currency translation reserve	Accumulated losses	Total
		US\$	US\$	US\$	US\$	US\$
Balance as at 1 July 2017		55,198,677	7,363,748	(2,256,273)	(24,112,586)	36,193,566
Loss for the year		-	-	-	(4,926,820)	(4,926,820)
Other comprehensive income						
Foreign currency translation		-	-	(275,306)	-	(275,306)
Total comprehensive loss for the year		-	-	(275,306)	(4,926,820)	(5,202,126)
Transactions with owners recorded directly in equity						
Shares issued under YOW						
Employee Incentive Plan		441,824	(675,197)	-	-	(233,373)
Share issue transaction costs		(4,510)	-	-	-	(4,510)
Share-based payments		-	(1,164,335)	-	-	(1,164,335)
Expired options and rights		-	(2,969,254)	-	2,969,254	-
Balance as at 30 June 2018		55,635,991	2,554,962	(2,531,579)	(26,070,152)	29,589,222
Balance as at 1 July 2018		55,635,991	2,554,962	(2,531,579)	(26,070,152)	29,589,222
Loss for the year		-	-	-	(4,600,283)	(4,600,283)
Other comprehensive income						
Foreign currency translation		-	-	(415,932)	-	(415,932)
Total comprehensive loss for the year		-	-	(415,932)	(4,600,283)	(5,016,215)
Transactions with owners recorded directly in equity						
Shares issued under YOW						
Employee Incentive Plan		70,273	(70,273)	-	-	-
Share issue transaction costs		(2,719)	-	-	-	(2,719)
Share-based payments		-	(21,576)	-	-	(21,576)
Expired options and rights		-	(270,089)	-	270,089	-
Balance as at 30 June 2019		55,703,545	2,193,024	(2,947,511)	(30,400,346)	24,548,712

7. Notes to the Financial Statements

Note 1 – Administration

	Consolidated	
	2019 US\$	2018 US\$
<i>Administration expenses include:</i>		
Employee benefits	1,343,552	2,390,587
Business development and travel	360,941	1,185,222
Legal, tax, listing, compliance and insurance	1,067,254	874,443
Share-based payments	(21,576)	(1,164,335)
Depreciation and amortisation	332,118	245,691
Other administrative expenses	513,421	568,317
	3,595,710	4,099,925

Note 2 – Prepayments

	Consolidated	
	2019 US\$	2018 US\$
Prepayments – raw materials	1,004,507	993,686
Prepayments – other	380,487	627,737
	1,384,994	1,621,423

Note 3 – Inventories

	Consolidated	
	2019 US\$	2018 US\$
Current		
Raw materials	1,796,401	1,386,136
Work in progress	68,253	159,368
Finished goods	2,847,500	2,140,424
Allowance for disposal	(518,738)	(378,146)
	4,193,416	3,307,782

- (i) Write-downs of inventories to net realisable value during the year ended 30 June 2019 amounted to US\$633,463 (2018: US\$1,134,364). The write-downs were mostly due to disposal (and allowance for disposal) of raw materials relating to outdated Yowie Series.

Movement in the allowance for disposal of inventories is set out below.

Balance at the beginning of the year	(378,146)	(84,000)
Disposal	1,616	84,000
Additional allowance	(142,208)	(378,146)
Balance at the end of the year	(518,738)	(378,146)

7. Notes to the Financial Statements (continued)

Note 4 – Plant and Equipment

	Consolidated	
	2019 US\$	2018 US\$
Manufacturing plant and equipment		
Cost	4,064,940	4,356,315
Accumulated depreciation	(404,181)	(420,136)
	<u>3,660,759</u>	<u>3,936,179</u>
Manufacturing plant and equipment under construction		
Cost	235,740	506,462
Office equipment		
Cost	10,053	24,640
Accumulated depreciation	(6,184)	(19,327)
	<u>3,869</u>	<u>5,313</u>
Total plant and equipment	<u><u>3,900,368</u></u>	<u><u>4,447,954</u></u>

Movements in the carrying amount of each class are set out below.

Manufacturing plant and equipment		
Balance at the beginning of the year	3,936,179	3,501,400
Additions	198,650	160,550
Transfers from / (to) manufacturing plant and equipment under construction	(203,630)	-
Depreciation	(185,478)	(198,630)
Reversal of provision for impairment ¹	-	499,377
Impairment	(84,962)	(26,518)
Foreign exchange adjustment	-	-
Carrying amount at the end of the year	<u>3,660,759</u>	<u>3,936,179</u>
Manufacturing plant and equipment under construction		
Balance at the beginning of the year	506,462	-
Additions	733,523	506,462
Transfers from / (to) manufacturing plant and equipment	203,630	-
Provision for impairment ²	(1,207,875)	-
Foreign exchange adjustment	-	-
Carrying amount at the end of the year	<u>235,740</u>	<u>506,462</u>

7. Notes to the Financial Statements (continued)

Note 4 – Plant and Equipment (continued)

	Consolidated	
	2019 US\$	2018 US\$
Office equipment		
Balance at the beginning of the year	5,313	11,587
Additions	2,755	3,568
Depreciation	(4,194)	(5,328)
Disposals	-	(4,539)
Foreign exchange adjustment	(5)	25
Carrying amount at the end of the year	3,869	5,313

¹ Reversal of provision for impairment in FY2018 is due to successful recovery of the wrapping machine from Whetstone Chocolate Factory. Refer to Note 7 for details.

² Provision for impairment was recorded to adjust the net book value of idle production equipment. The production equipment became idle during the year as the Group commissioned new equipment which results in an improved efficiency of the production plant and lower production cost.

Note 5 – Intangible Assets

	Consolidated	
	2019 US\$	2018 US\$
Rights and licenses ¹		
Cost	225,398	225,398
Software		
Cost	349,051	456,749
Accumulated amortisation	(123,921)	(229,406)
	225,130	227,343
Product development ²		
Cost	1,860,936	632,179
Accumulated amortisation	(1,465,672)	(223,989)
	395,264	408,190
Total intangible assets	845,792	860,931

¹ Rights and licenses relate to Yowie trademark which management has assessed as having an indefinite useful life.

² Product development relates to capitalised costs associated with the development of Yowie collectables.

Further information in relation to the status of impairment testing in relation to non-current assets at the date of this report is included in Section 2.6 of this Appendix 4E.

7. Notes to the Financial Statements (continued)

Note 5 – Intangible Assets (continued)

Movements in the carrying amount of each class are set out below.

	Consolidated	
	2019	2018
	US\$	US\$
Rights and licenses		
Balance at the beginning of the year	225,398	225,398
Amounts written off	-	-
Foreign exchange adjustment	-	-
Carrying amount at the end of the year	<u>225,398</u>	<u>225,398</u>
Software		
Balance at the beginning of the year	227,343	71,845
Additions	100,655	209,784
Amortisation	(102,112)	(53,611)
Foreign exchange adjustment	(756)	(675)
Carrying amount at the end of the year	<u>225,130</u>	<u>227,343</u>
Product development		
Balance at the beginning of the year	408,190	842,277
Additions	212,886	956,058
Amortisation	(225,812)	(186,752)
Amounts written off ¹	-	(1,203,393)
Carrying amount at the end of the year	<u>395,264</u>	<u>408,190</u>

¹ Amounts written off during the year ended 30 June 2018 relates to the investment in the development of Yowie book and Yowie cartoon. The Board reviewed the expected future economic benefits from these investments and determined that it was highly unlikely that any future economic benefits would exceed the net book value and, therefore, the investment has been written off. The Group will continue to utilise these assets to broaden brand awareness and develop the Yowie character.

Note 6 – Trade and Other Payables

	Consolidated	
	2019	2018
	US\$	US\$
Current		
Trade payables and accruals	1,258,981	2,049,790
Rebate allowances ¹	2,055,914	1,515,001
Other	1,787	1,884
	<u>3,316,682</u>	<u>3,566,675</u>

¹ Rebate allowances include estimated accrual for promotional discounts, prompt payment discounts and spoilage of goods.

7. Notes to the Financial Statements (continued)

Note 7 – Contingencies

As reported previously, Yowie North America Inc. (“YNA”), a wholly owned subsidiary of the Group, had brought claims against Whetstone Chocolate Factory (“WCF”) and Atlantic Candy Company (“ACC”) for the release and return of the RASCH “Type FI” wrapping machine (“Wrapper”) owned by the Group and located at ACC’s facility, as well as for monetary damages. YNA negotiated a settlement agreement with ACC for the release and return of the wrapper and the wrapper has been returned. Consequently, the provision for impairment relating to the wrapping machine that was previously recognised was reversed during the half-year ended 31 December 2017.

In this same case, ACC has filed a counterclaim alleging that YNA has breached the Manufacturing Agreement between the parties and sent a Notice of Default to YNA alleging that YNA is also in default under the Patent and Technology License Agreement. The Company has disclaimed liability and is defending the action. The Company considers no provision is warranted in relation to this counterclaim. No trial date is currently set for this matter so YNA cannot make a determination as to when this matter will be resolved.

In a related matter, Mr. Whetstone, on 4 November 2016, filed suit in the Circuit Court for the Seventh Judicial Circuit in and for St. John’s County, Florida against YNA. Whetstone alleges that YNA owes him royalty fees from that time until 2027 under the Patent Technology and License Agreement regardless of whether the Company uses Whetstone’s patent. Because the Company is no longer using Mr Whetstone’s patent in its manufacturing process, it believes that there is no legal basis under YNA’s contract with Mr. Whetstone to pay him any royalty. Both parties filed and argued cross-motions for summary judgment on this issue in October 2017. On 13 September 2018, the Court entered an order denying both parties motions for summary judgment. No trial date is currently set for this matter so YNA cannot make a determination as to when this matter will be resolved.

On 16 November 2017, Whetstone Industries and Mr. Whetstone filed tortious interference claims against the Group and former Directors, Wayne Loxton, Patricia Fields, and Trevor Allen in Middle District of Florida. The Group, Wayne Loxton, Patricia Fields, and Trevor Allen were served with copies of these lawsuits in February 2018 and filed motions to dismiss for lack of personal jurisdiction in April 2018. On 25 July 2018, the court found jurisdiction in Florida. On 17 August 2018, all defendants filed a motion to dismiss the Complaint in its entirety for failure to state a claim upon which relief can be granted. The Court has not yet issued a ruling on this motion. A scheduling order has been entered in this matter and trial is currently set for April 2020.

Management is not able to reliably estimate the ultimate settlement amounts at this time nor does management believe any material payments would be made as a result of these cases, and therefore no provision in relation to the claim has been recognised in the financial statements. The Company will incur ongoing legal costs due to these cases. However, due to inherent uncertainties, no accurate quantification of any cost, or timing of such cost, which may arise from the legal proceedings, we have not made any provision for legal costs.

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

Date dividend is payable

Record date to determine entitlements to the dividend

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

Amount per security

	Amount per security	Franked amount per security at 30% tax	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 Corresponding Period
Ordinary securities	N/A	N/A
Preference securities	N/A	N/A

9. Dividend or distribution plans in operation

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

10. Net tangible asset (NTA) backing

	Current Period 2019 US\$	Previous Corresponding Period 2018 US\$
Net tangible asset backing per ordinary security (cents)	10.89	12.94

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11. Control gained over entities having material effect

Name of entity (or group of entities)	N/A
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Consolidated loss from ordinary activities after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired	N/A
Date from which such profit has been calculated	N/A
Loss from ordinary activities after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

Loss of control of entities having material effect

Name of entity (or group of entities)	N/A
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Consolidated profit (loss) from ordinary activities after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	N/A
Date to which the profit (loss) has been calculated	N/A
Consolidated profit (loss) from ordinary activities after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	N/A
Contribution to consolidated profit (loss) from ordinary activities from sale of interest leading to loss of control	N/A

12. Material interests in entities which are not controlled entities

The Group has no material interest in entities which are not controlled entities.

13. 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

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

N/A

15. Commentary on the results for the period

15.1 Earnings per security (EPS)

	Current Period 2019	Previous Corresponding Period 2018
Basic EPS (cents per share)	(2.11)	(2.29)
Diluted EPS (cents per share)	(2.11)	(2.29)

15.2 Returns to shareholders (Including distributions and buy backs)

	Current Period 2019 US\$	Previous Corresponding Period 2018 US\$
Ordinary securities	N/A	N/A
Preference securities	N/A	N/A
Other equity instruments	N/A	N/A
Total	N/A	N/A

The dividend or distribution plans shown below are in operation.

N/A

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

N/A

Any other disclosures in relation to dividends (distributions).

N/A

15.3 Significant features of operating performance

Refer to Item 13.

15.4 Segment Information

The Group has only one reportable segment, which relates to the operations of its confectionery business, with production carried out under a contract manufacturing arrangement. The net result is presented on a consolidated basis.

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15.5 Report on trends in performance

Refer to Item 2.6.

15.6 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

16. 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. |

17. 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:

N/A

18. 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:
(Non-Executive Chairman)

Date: 30 August 2019

Print name: Louis Carroll

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