

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 2020

Previous corresponding period:

Year ended 30 June 2019

2. Results for announcement to the market

**30 June 2020
US\$**

2.1	Revenue from ordinary activities	down	25%	to	10,753,996
2.2	Loss from ordinary activities for the period after tax attributable to members	down	8%	to	(4,712,263)
2.3	Net loss for the period attributable to members	down	8%	to	(4,712,263)
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 2020 were US\$10.75 million, 25% lower than the previous corresponding period. Sales for the year was negatively impacted by COVID-19 related shutdowns in the US and Australia, with the initial buying rush being focused on consumer staples and immediate consumption and novelty confections not being shopper's priority. There was a huge drop in retailer foot traffic in March and shoppers were not bringing children for shopping, further affecting novelty sales. There was also significant competitive activity, including the new chocolate line launch, by our largest novelty competitor.

Despite the challenging environment, previously announced chain-wide front-end distribution for core Yowie in Food Lion (>1,000 grocery stores in the US Southeast) began as scheduled in Q4, along with several convenience chains. This will increase distribution in Q1 of FY2021 as product hits the shelves.

Loss after income tax

Loss after income tax for the year ended 30 June 2020 was US\$4.7 million, an 8% improvement compared to the previous year of US\$5.1 million. For detailed comparison to previous year result, please refer to Section 3.

EBITDA (Earnings before interest, taxes, depreciation, amortization and impairment)

The Group's EBITDA loss, before share-based payments expense, for the year ended 30 June 2020 was US\$2.98 million, a 5% decline compared to an EBITDA loss of US\$2.85 million in the previous year. The 25% decline in sales was offset by better fiscal discipline, with a focus on cost-saving measure across all areas of the business. The annual salary of the Group CEO was reduced from US\$522,600 to US\$322,600 effective 20 April 2020.

Cash flow

The Group made an improvement in its operating cash flow during the year. Operating cash outflows for the year ended 30 June 2020 were US\$1.3 million, a 17% improvement compared to the previous year's cash outflows of US\$1.6 million.

The Group also completed a return of capital of 2 cents per share with a total of A\$4.36 million (equivalent to US\$2.98 million) returned to shareholders in November 2019.

Impairment of non-current assets

The Group recorded an impairment of non-current assets of US\$0.15 million to write off the book value of its intangible assets associated with old Yowie series. In addition to this, the Group had also recorded an impairment to non-current assets of US\$1.54 million as a result of impairment testing completed at 31 December 2019.

The Group is required, under Australian Accounting Standards, to perform impairment testing at the end of each reporting period, when impairment indicators are identified.

As at 30 June 2020, impairment indicators have been identified, including the fact that the Group's market capitalization is less than the net assets of the Group, and the Group's financial performance for the year was below budget. 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 2020**

	Note	Consolidated	
		2020 US\$	2019 US\$
Sale of goods		10,753,996	14,425,071
Cost of sales		(5,579,766)	(7,437,662)
Gross profit		5,174,230	6,987,409
Selling and distribution		(3,611,003)	(4,477,735)
Marketing		(1,186,369)	(1,439,933)
Administration	1	(3,280,784)	(3,595,710)
Other income	1(a)	272,695	276,601
Foreign exchange gains		63,898	227,431
Write-down of inventory	3	(445,579)	(633,463)
Impairment of plant and equipment	4	(1,324,288)	(1,698,370)
Impairment of intangible assets	5	(362,418)	(93,695)
Loss before income tax		(4,699,618)	(4,447,465)
Income tax expense		(12,645)	(652,046)
Loss after income tax for the year		(4,712,263)	(5,099,511)
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Movement in foreign currency translation reserve		449,279	(415,932)
Total comprehensive loss for the year net of tax attributable to members of the Company		(4,262,984)	(5,515,443)
Loss per share attributable to members of the Company			
Basic loss per share (cents)		(2.16)	(2.34)
Diluted loss per share (cents)		(2.16)	(2.34)

4. Consolidated Statement of Financial Position
As at 30 June 2020

	Note	Consolidated	
		2020 US\$	2019 US\$
Current Assets			
Cash and cash equivalents		11,796,909	16,360,661
Trade and other receivables		813,571	1,219,425
Prepayments	2	337,135	1,384,994
Inventories	3	3,653,767	4,193,416
Current tax assets		52,167	-
Total Current Assets		16,653,549	23,158,496
Non-Current Assets			
Plant and equipment	4	2,688,649	3,494,835
Intangible assets	5	202,987	752,097
Total Non-Current Assets		2,891,636	4,246,932
Total Assets		19,545,185	27,405,428
Current Liabilities			
Trade and other payables	6	2,674,162	3,316,682
Provisions		22,007	16,023
Current tax liabilities		-	23,239
Unearned income	1(a)	31,234	-
Total Current Liabilities		2,727,403	3,355,944
Total Liabilities		2,727,403	3,355,944
Net Assets		16,817,782	24,049,484
Equity			
Issued capital		52,747,811	55,703,545
Reserves		(463,248)	(754,487)
Accumulated losses		(35,466,781)	(30,899,574)
Total Equity		16,817,782	24,049,484

**5. Consolidated Statement of Cash Flows
For the year ended 30 June 2020**

	Note	Consolidated	
		2020 US\$	2019 US\$
Cash flow from operating activities			
Receipts from customers		10,700,818	15,259,346
Other receipts		176,568	6,053
Payments to suppliers and employees		(12,251,194)	(17,126,924)
Interest received		133,394	262,800
Income taxes paid		(83,860)	5,107
Net cash outflows used in operating activities		(1,324,274)	(1,593,618)
Cash flow from investing activities			
Payments for plant and equipment		(617,342)	(928,073)
Payments for intangible assets		(172,373)	(431,836)
Net cash outflows used in investing activities		(789,715)	(1,359,909)
Cash flow from financing activities			
Return of capital		(2,981,926)	-
Payment of share issue transaction costs		(1,437)	(2,954)
Net cash outflows used in financing activities		(2,983,363)	(2,954)
Net decrease in cash and cash equivalents		(5,097,352)	(2,956,481)
Cash and cash equivalents at beginning of the year		16,360,661	19,466,956
Effect of foreign exchange movements		533,600	(149,814)
Cash and cash equivalents at end of the year		11,796,909	16,360,661

For personal use only

6. Consolidated Statement of Changes in Equity
For the year ended 30 June 2020

	Note	Consolidated				Total US\$
		Issued capital US\$	Share- based payment reserve US\$	Foreign currency translation reserve US\$	Accumulated losses US\$	
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		-	-	-	(5,099,511)	(5,099,511)
Other comprehensive income						
Foreign currency translation		-	-	(415,932)	-	(415,932)
Total comprehensive loss for the year		-	-	(415,932)	(5,099,511)	(5,515,443)
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)	(30,899,574)	24,049,484
Balance as at 1 July 2019		55,703,545	2,193,024	(2,947,511)	(30,899,574)	24,049,484
Loss for the year		-	-	-	(4,712,263)	(4,712,263)
Other comprehensive income						
Foreign currency translation		-	-	449,279	-	449,279
Total comprehensive loss for the year		-	-	449,279	(4,712,263)	(4,262,984)
Transactions with owners recorded directly in equity						
Return of capital		(2,981,926)	-	-	-	(2,981,926)
Shares issued under YOW						
Employee Incentive Plan		27,498	(27,498)	-	-	-
Share issue transaction costs		(1,306)	-	-	-	(1,306)
Share-based payments		-	14,514	-	-	14,514
Expired options and rights		-	(145,056)	-	145,056	-
Balance as at 30 June 2020		52,747,811	2,034,984	(2,498,232)	(35,466,781)	16,817,782

7. Notes to the Financial Statements

Note 1 – Administration

	Consolidated	
	2020 US\$	2019 US\$
<i>Administration expenses include:</i>		
Employee benefits	1,263,240	1,343,552
Business development and travel	290,810	360,941
Legal, tax, listing, compliance and insurance	985,492	1,067,254
Share-based payments	14,514	(21,576)
Depreciation and amortisation	354,465	332,118
Other administrative expenses	372,263	513,421
	3,280,784	3,595,710

Note 1(a) – Other income

	Consolidated	
	2020 US\$	2019 US\$
Interest income	126,235	270,164
Government grant ¹	142,767	-
Other income	3,693	6,437
	272,695	276,601

¹ During the year ended 30 June 2020, the Group received a total of US\$142,767 government grant from both Australia and the US Government as part of their COVID-19 economic response program.

A large portion of the amount relates to Paycheck Protection Program (PPP) Loan from the US Government of US\$151,653, of which US\$120,419 was recognised as government grant (other income) as the Group has reasonable assurance that it will meet the terms for the forgiveness of the loan, while the remaining US\$31,234 is classified as unearned income in the consolidated statement of financial position in pursuant to AASB 120.

Note 2 – Prepayments

	Consolidated	
	2020 US\$	2019 US\$
Current		
Prepayments – raw materials	183,254	1,004,507
Prepayments – other	153,881	380,487
	337,135	1,384,994

Note 3 – Inventories

	Consolidated	
	2020 US\$	2019 US\$
Current		
Raw materials	2,212,771	1,796,401
Work in progress	39,054	68,253
Finished goods	2,034,991	2,847,500
Allowance for disposal	(633,049)	(518,738)
	3,653,767	4,193,416

Write-downs of inventories to net realisable value during the year ended 30 June 2020 amounted to US\$445,579 (2019: US\$633,463). 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	(518,738)	(378,146)
Disposal	114,585	1,616
Additional allowance	(228,896)	(142,208)
Balance at the end of the year	(633,049)	(518,738)

Note 4 – Plant and Equipment

	Consolidated	
	2020 US\$	2019 US\$
Manufacturing plant and equipment		
Cost	4,140,186	4,064,940
Accumulated depreciation	(491,436)	(404,181)
Accumulated impairment losses	(1,729,821)	(405,533)
	1,918,929	3,255,226
Manufacturing plant and equipment under construction		
Cost	765,871	235,740
Office equipment		
Cost	12,442	10,053
Accumulated depreciation	(8,593)	(6,184)
	3,849	3,869
Total plant and equipment	2,688,649	3,494,835

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 4 – Plant and Equipment (continued)

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

Manufacturing plant and equipment

Balance at the beginning of the year	3,255,226	3,936,179
Additions	20,677	198,650
Transfers from / (to) manufacturing plant and equipment under construction	54,569	(203,630)
Depreciation	(87,255)	(185,478)
Impairment ¹	(1,324,288)	(405,533)
Amounts written off	-	(84,962)
Foreign exchange adjustment	-	-
Carrying amount at the end of the year	1,918,929	3,255,226

Manufacturing plant and equipment under construction

Balance at the beginning of the year	235,740	506,462
Additions	584,700	733,523
Transfers from / (to) manufacturing plant and equipment	(54,569)	203,630
Provision for impairment ²	-	(1,207,875)
Carrying amount at the end of the year	765,871	235,740

Office equipment

Balance at the beginning of the year	3,869	5,313
Additions	3,570	2,755
Depreciation	(3,186)	(4,194)
Disposals	(393)	-
Foreign exchange adjustment	(11)	(5)
Carrying amount at the end of the year	3,849	3,869

¹ This relates to impairment losses recognised as a result of impairment testing performed as at 31 December 2019 following the identification of impairment indicators, namely the Group's market capitalization is less than the Group's net assets, and the Group's financial performance for the half year was below budget. Please refer to the Half Year Report for details on this impairment testing.

² During the year ended 30 June 2019, 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 with the aim of improving efficiency of the production plant and reducing production cost.

7. Notes to the Financial Statements (continued)

Note 5 – Intangible Assets

	Consolidated	
	2020	2019
	US\$	US\$
Rights and licenses ¹		
Cost	225,398	225,398
Accumulated impairment losses	(106,028)	(24,969)
	<u>119,370</u>	<u>200,429</u>
Software		
Cost	370,887	349,051
Accumulated amortisation	(302,774)	(123,921)
Accumulated impairment losses	(53,092)	(24,940)
	<u>15,021</u>	<u>200,190</u>
Product development ²		
Cost	987,800	845,065
Accumulated amortisation	(774,917)	(449,801)
Accumulated impairment losses	(144,287)	(43,786)
	<u>68,596</u>	<u>351,478</u>
Total intangible assets	<u>202,987</u>	<u>752,097</u>

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	
	2020 US\$	2019 US\$
Rights and licenses		
Balance at the beginning of the year	200,429	225,398
Impairment ¹	(81,059)	(24,969)
Carrying amount at the end of the year	119,370	200,429
Software		
Balance at the beginning of the year	200,190	227,343
Additions	22,115	100,655
Amortisation	(162,385)	(102,112)
Impairment ¹	(28,152)	(24,940)
Amounts written off	(16,483)	-
Foreign exchange adjustment	(264)	(756)
Carrying amount at the end of the year	15,021	200,190
Product development		
Balance at the beginning of the year	351,478	408,190
Additions	142,736	212,886
Amortisation	(188,894)	(225,812)
Impairment ¹	(100,501)	(43,786)
Amounts written off	(136,223)	-
Carrying amount at the end of the year	68,596	351,478

¹ This relates to impairment losses recognised as a result of impairment testing performed as at 31 December 2019 following the identification of impairment indicators, namely the Group's market capitalization is less than the Group's net assets, and the Group's financial performance for the half year was below budget. Please refer to the Half Year Report for details on this impairment testing.

Total impairment losses recognised under intangible assets were US\$209,712 (2019: US\$93,695). Please refer to the Half Year Report for details on this impairment testing.

Note 6 – Trade and Other Payables

	Consolidated	
	2020 US\$	2019 US\$
Trade payables and accruals	565,512	1,258,981
Rebate allowances ¹	2,106,899	2,055,914
Other	1,751	1,787
	2,674,162	3,316,682

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 recognized was reversed during the half-year ended 31 December 2017.

In this same case (which has, since the last report, been consolidated with the other pending Florida state court action), ACC, Whetstone Industries (“WI”), and Henry M. Whetstone, Jr. (“Whetstone”) have filed counterclaims against YNA alleging that YNA breached the Manufacturing Agreement, the Patent Agreement, violated the Florida Uniform Trade Secrets Act (“FUTSA”), breached fiduciary duties owed to WI and ACC, and fraudulently induced ACC, WI, and Whetstone to enter into amendments to the Manufacturing and Patent Agreements.

For its claim of the breach of the Manufacturing Agreement, ACC and WI (as the purported successor-in-interest to the Manufacturing Agreement) allege that the Manufacturing Agreement was a requirements contract that required YNA to manufacture with ACC and WI until the agreement expired in 2027; however, YNA believes this is inconsistent with the plain language in the Manufacturing Agreement which only requires YNA to manufacture with ACC and WI when YNA is using Whetstone’s patents to produce its chocolate and toy combination products. For its claim for breach of the Patent Agreement, 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 (now expired) patent in its manufacturing process (and hasn’t for several years), it believes that there is no legal basis under YNA’s contract with Mr. Whetstone to pay him any royalty. For its FUTSA claim, WI and ACC claim that YNA impermissibly appropriated the technology from its manufacturing line to start its line with Madelaine. YNA rejects this as false and notes that the manufacturing line used at Madelaine is much newer and modern than WI’s and ACC’s manufacturing lines. For its breach of fiduciary duty claim, WI and ACC claim that YNA owed fiduciary duties to them, but this is inconsistent with Florida law which does not apply fiduciary duties in situation like these. Finally, for its fraudulent inducement claim, there is no support for any claim that YNA (or any of its agents) acted to coerce WI and ACC to enter into any amendment agreements.

Both parties filed and argued cross-motions for summary judgment on issues related to the Patent Agreement 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. Further, for all the above causes of action, YNA has disclaimed liability and is defending the action. YNA considers no provision is warranted in relation to this counterclaim.

On 16 November 2017, in a related action, 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 denied this motion to dismiss in August 2019. A scheduling order has been entered in this matter and trial is currently set for August 2021.

7. Notes to the Financial Statements (continued)

Note 7 – Contingencies (continued)

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.

Note 8 – Impact on Adoption of AASB 16 Leases to the Group’s Financial Statements

There was no impact on the financial statements from the application of this new standard as the Group’s leasing arrangements were either low value assets, or short-term contracts.

Please refer to the Half Year Report for more detailed disclosure on AASB 16 *Leases*.

8. 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

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

N/A

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

N/A

10. Net tangible asset (NTA) backing

	Current Period	Previous Corresponding Period
	2020 US\$	2019 US\$
Net tangible asset backing per ordinary security (cents)	7.61	10.70

11. Control gained over entities having material effect

Name of entity (or group of entities)

N/A

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

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

For personal use only

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

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 2020	Previous Corresponding Period 2019
Basic EPS (cents per share)	(2.16)	(2.34)
Diluted EPS (cents per share)	(2.16)	(2.34)

15.2 Returns to shareholders (Including distributions and buy backs)

	Current Period 2020 US\$	Previous Corresponding Period 2019 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

For personal use only

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.

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: Date: 31 August 2020
(Non-Executive Chairman)

Print name: Louis Carroll

For personal use only