



the**Hydroponics**company

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Australia's leading medicinal cannabis company

The Hydroponics Company Limited

ACN: 614 508 039

Appendix 4D and Interim Financial Report



The Hydroponics Company Limited
(ASX:THC) ACN: 614 508 039

Level 2, 131 Macquarie Street
Sydney NSW 2000

APPENDIX 4D

1. Name of Entity **The Hydroponics Company Limited**
ACN 614 508 039

Half year ended 30 June 2018
Reporting period 1 January 2018 to 30 June 2018
Previous period 1 January 2017 to 30 June 2017*

2. Results for announcement to the market

	30 June 2018	30 June 2017*	% Change*
	\$	\$	Up (Down)
*Noted that for items 2.1 – 2.3 below that due to the acquisition of entities contingent on the initial public offering on 4 May 2017 that the comparative figures and % change figures are only inclusive of the costs, revenues, and profits for Crystal Mountain and Dragon Vision and Candeo Limited for the period from the date of the acquisition to 30 June 2017.			
2.1 Revenues from continuing operations	1,276,698	323,615	295%
2.2 Loss from continuing operations after tax attributable to members	(3,196,156)	(728,407)	339%
2.3 Net loss attributable to members	(3,196,156)	(728,407)	339%
2.4 Proposed dividends	Nil	Nil	-
2.5 Record date for dividend entitlement	N/A	N/A	
2.6 The loss for the period has increased by \$2.4m as compared to the previous period. The increase in loss is largely attributable to the fact that the half year ended 30 June 2018 has seen increased expenditure on investment into the medicinal cannabis segment.			

	30 June 2018	31 December	% Change
	Cents	2017	Up (Down)
		Cents	
3. Net tangible assets per security	21 cents	12 cents	69%
4. There were no controlled entities gained or lost during the period.			
5. There were no payments of dividends during the reporting period.			
6. There is no dividend reinvestment plan in operation.			
7. There are no associates or joint venture entities.			
8. The Company is not a foreign entity.			

9. The accounts are not subject to any audit dispute or qualification.

Additional Appendix 4D disclosure requirements can be found in the Interim Financial Report attached to this Appendix 4D.

The Company's half year report follows.

**The Hydroponics Company Limited
Consolidated Interim Financial Report
30 June 2018**

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Corporate Directory

The Hydroponics Company Limited

Directors

Steven Xu (Chairman)
Alan Preston Beasley (Deputy Chairman)
Lou Anthony Cattelan
Gary John Radcliff

Company Secretary

Henry Kinstlinger

Chief Financial Officer

Jarrold White

Business Unit Heads

Jason Colquhoun – CMDV

Registered Office

Level 2
131 Macquarie Street
Sydney NSW 2000

Principal Place of Business

Level 2
131 Macquarie Street
Sydney NSW 2000

Website:

<http://www.thcl.com.au>

Corporate Accountant

Traverse Accountants
Suite 305, Level 3
35 Lime Street
Sydney NSW 2000
Australia

Auditor

KS Black & Co
Level 1, 251 Elizabeth Street
Sydney NSW 2000
Australia

Australian Legal Advisors

Piper Alderman
Level 23, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Baker McKenzie
Level 46, Tower One
International Towers Sydney
100 Barangaroo Avenue
Barangaroo NSW 2000

Directors' Report

Your directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of The Hydroponics Company Limited (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the half-year ended 30 June 2018.

Directors

The following persons were directors of the Company during the financial period and up to the date of this report, unless otherwise indicated:

Steven Xu	Chairman, Non-Executive Director, appointed 12/01/2018
Alan Preston Beasley	Deputy Chairman, Non-Executive Director, appointed 29/08/2016
Lou Anthony Cattelan	Non-Executive Director, appointed 15/03/2018
Gary John Radcliff	Non-Executive Director, appointed 15/03/2018
Hamish MacDonald	Non-Executive Director, removed 15/03/2018
Ian Mutton	Non-Executive Director, removed 15/03/2018
Mary Verschuer	Non-Executive Director, removed 15/03/2018
Peter Wallace	Non-Executive Director, removed 15/03/2018

Review of Operations and Financial Results

The net loss after income tax for the half-year ended 30 June 2018 was \$3,196,156 (2017 loss: \$728,407).

Principal Activities

Review of Operations

Establishment of Executive and Management Leadership Teams

THC announced the appointment of Ken Charteris as the Group Chief Executive Officer on 11 July 2018 in addition to a number of other key strategic appointments over the past half year across both its global medicinal cannabis operations and its North American hydroponics business.

Group CEO, Ken Charteris, an experienced bio-tech and pharmaceuticals executive is supported by a global team who each have significant experience working with working in the pharmaceuticals and hydroponics industries.

The Medicinal Cannabis leadership team is headed up by Dr Andrew Beehag and includes Katy Williams-Day as Product & Regulatory Affairs Manager, John Hall as an expert in Cannabis Strain Development and R&D, and Dr Michael Harrison as manager of the Southport bio-pharmaceutical facility.

The Company also secured the continued services of Mr Jason Colquhoun, who is the head of the Company's revenue generating global hydroponics division. Jason is overseeing the expansion of the Company's hydroponics operations as it seeks to take advantage of the burgeoning micro-LP and home-grower markets in Canada following recent legislative changes and expands into the greater North American and European markets.

Manufacture, Product Development and Distribution of Hydroponic Equipment

The Company remains committed to the continued expansion of the Company's global revenue-generating hydroponics operation, Crystal Mountain Products. The Company has recently entered into an agreement with BioFloral, an east coast Canadian hydroponics business who will together work toward building a distribution network for the Company's products across North America.

Increased Medicinal Cannabis Growing and R&D Capabilities

The Company also expanded its growing capability significantly in the period, having secured an additional growing site in Northern NSW which it expects to develop to be able to cultivate up to 600,000 plants per year.

The large-scale capacity will allow the Company to grow plants using both its proprietary strain IP and imported strains from commercial partners attracted in the first half of 2018.

The Company continues to be engaged with the relevant Australian Government authorities to pursue the Company's licencing and permitting program for its medicinal cannabis operations.

Pharma-grade Bio-manufacturing facility enabling full sale pharma production

The Company acquired a bio-pharmaceutical manufacturing facility on 1 May 2018 for \$2.55 million. Following a revaluation of the facility by AON Valuation Services, the asset now sits on the Company's balance sheet at over \$16 million. The acquisition secures an industry-leading asset for the Company allowing it to move towards the sale and export of locally produced medicinal cannabis products. The acquisition places the Company far ahead of other medicinal cannabis companies who lack any significant means of moving to full-scale commercial pharma-grade production of medicinal cannabis products in the near term.

Significant Changes in State of Affairs

No other significant changes in the Group's state of affairs occurred during the financial period.

Matters Subsequent to Balance Date

Subsequent to balance date the company:

- Appointed Mr Ken Charteris as the Group CEO as announced to the ASX on 11 July 2018;
- Issued 500,000 shares and 1,500,000 options to the Canadian head of operations;
- Issued 500,000 shares to the new Group CEO;
- Announced the revaluation of the Southport assets of an additional value of \$14.58m as an adjusting item in the 30 June 2018 financial statements;
- Extended the due diligence period and subsequently secured an organic growing facility in Northern NSW together with offtake agreements for product with ASX Listed EVE Investments Limited (ASX:EVE);
- Executed an initial cooperation agreement with Endoca;
- Announced the cross promotion of Bio Floral in Canada with the existing CMP/DV business with the potential to distribute products across wider Canada;
- Successfully imported Endoca product into the country which was available to Medicinal Cannabis patients as of 31 July 2018.

No other matters or circumstances have arisen since 30 June 2018 which significantly affected, or may significantly affect:

- a) The Group's operations in future financial years; or
- b) The results of those operations in future financial years; or
- c) The Group's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in these financial statements because the directors believe it could potentially result in unreasonable prejudice to the Group.

Dividends

No dividends were proposed or paid to members during the financial period (2017: \$Nil).

Indemnification of Officers

During the financial year the Company paid premiums in respect of a contract insuring Directors and Executives against a liability incurred in the ordinary course of business.

Proceedings on Behalf of the Group

No person has applied to the Court for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 6.

Signed in accordance with a resolution of the Board of Directors.

On behalf of the Board:



Steven Xu
Chairman
30 August 2018

Level 6
350 Kent Street
SYDNEY NSW 2000

75 Lyons Road
DRUMMOYNE NSW 2047

K.S. Black & Co.

ABN 48 117 929 535

20 Grose Street
North Parramatta NSW 2151

PO Box 2210
North Parramatta NSW 1750

Lead Auditors' Independence Declaration under Section 307C of the Corporations Act 2001

To the Director's of The Hydroponics Company Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 30 June 2018 there has been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

The entities are in respect of The Hydroponics Company Limited and the entities it controlled during the period.

KS Black & Co
Chartered Accountants



Scott Bennison
Partner

Dated in Sydney on this *30th* day of *August* 2018

The Hydroponics Company Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 30 June 2018

	30 June 2018	30 June 2017
	\$	\$
Revenue from continuing operations	1,276,698	323,615
Cost of goods sold	(669,697)	(299,868)
Gross profit	<u>607,001</u>	<u>23,747</u>
Other income	38,818	83,219
Other cost of sales	(110,437)	-
Professional expenses	(653,293)	(469,273)
Consulting and due diligence expenses	(514,161)	-
Bundaberg facility and licensing costs	(234,340)	-
Employee benefits expense	(860,222)	(176,145)
Advertising and promotion expenses	(54,766)	(44,691)
Depreciation and amortisation expenses	(21,316)	(592)
Research and development	(33,395)	-
Finance expenses	(9,217)	(2,533)
Foreign exchange loss	(6,177)	(18)
Office and occupancy expenses	(189,114)	(6,406)
General and administration expenses	(650,754)	(122,815)
Share based payments	(504,783)	(12,900)
Loss before income tax	(3,196,156)	(728,407)
Income tax expense	-	-
Loss for the period	(3,196,156)	(728,407)
Other comprehensive income		
<i>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</i>		
Exchange differences on translating foreign operations, net of tax	39,056	29,251
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Gain on revaluation of land and buildings, net of tax	10,246,426	-
Total comprehensive profit/(loss) for the period	<u>7,089,326</u>	<u>(699,156)</u>
Earnings per share		
<i>From continuing operations</i>		
- Basic/diluted earnings per share (cents)	(2.61)	(1.21)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

The Hydroponics Company Limited
Consolidated Statement of Financial Position
As at 30 June 2018

	Notes	As at 30 June 2018 \$	As at 31 December 2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents	4	8,609,460	11,037,689
Trade and other receivables		735,702	1,287,060
Inventory	5	1,425,223	1,156,969
Prepayments		433,038	-
Total Current Assets		11,203,423	13,481,718
Non-Current Assets			
Trade and other receivables		1,690,029	1,169,035
Property, plant and equipment		17,408,681	638,832
Intangible assets		1,620,000	1,350,000
Goodwill	6	5,307,140	5,307,140
Total Non-Current Assets		26,025,850	8,465,007
Total Assets		37,229,273	21,946,725
LIABILITIES			
Current Liabilities			
Trade and other payables		586,398	588,825
Total Current Liabilities		586,398	588,825
Non-Current Liabilities			
Deferred tax liability		3,886,575	-
Total Current Liabilities		3,886,575	-
Total Liabilities		4,472,973	588,825
Net Assets		32,756,300	21,357,900
EQUITY			
Contributed equity	7(a)	21,576,338	17,517,047
Other contributed equity	7(b)	3,346,000	3,742,000
Reserves	8	13,008,426	2,845,739
Accumulated losses		(5,174,464)	(2,746,886)
Equity		32,756,300	21,357,900

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

The Hydroponics Company Limited
Consolidated Statement of Changes in Equity
For the half-year ended 30 June 2018

		Contributed equity	Other contributed equity	Accumulated losses	Revaluation reserve	Reserves	Total
	Notes	\$	\$	\$	\$	\$	\$
At 1 January 2018		17,517,047	3,742,000	(2,746,886)	-	2,845,739	21,357,900
Loss for the period		-	-	(3,196,156)	-	-	(3,196,156)
Other comprehensive income	8(b/c)	-	-	-	10,246,426	39,056	10,285,482
Total comprehensive (loss)/income		-	-	(3,196,156)	10,246,426	39,056	7,089,326
Shares issued in the period	7(a)	3,000,001	-	-	-	-	3,000,001
Costs of capital raising		(42,500)	-	-	-	-	(42,500)
Performance shares cancelled		-	(396,000)	396,000	-	-	-
Options converted		846,790	-	-	-	-	846,790
Share based payments accrued during the period		255,000	-	-	-	249,783	504,783
Options cancelled	8(a)	-	-	372,578	-	(372,578)	-
Total transactions with owners		4,059,291	(396,000)	768,578	-	(122,795)	4,309,074
At 30 June 2018		21,576,338	3,346,000	(5,174,464)	10,246,426	2,762,000	32,756,300
At 1 January 2017		1,069,932	-	(212,886)	-	102,188	959,234
Loss for the period		-	-	(728,407)	-	-	(728,407)
Other comprehensive income		-	-	-	-	29,251	29,251
Total comprehensive loss		-	-	(728,407)	-	29,251	(699,156)
Shares issued in the period	7(a)	13,790,000	-	-	-	-	13,790,000
Costs of capital raising		(3,861,935)	-	-	-	-	(3,861,935)
Performance shares issued		-	3,742,000	-	-	-	3,742,000
Options issued		-	-	24,525	-	1,458,412	1,482,937
Total transactions with owners		9,928,065	3,742,000	24,525	-	1,458,412	15,153,002
At 30 June 2017		10,997,997	3,742,000	(916,768)	-	1,589,851	15,413,080

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

The Hydroponics Company Limited
Consolidated Statement of Cash Flows
For the half-year ended 30 June 2018

	30 June 2018	30 June 2017
	\$	\$
Cash flows from operating activities		
Receipts from customers	1,242,905	298,620
Payments to suppliers and employees	(4,606,778)	(1,251,755)
Interest received	38,818	11,385
Finance costs	-	(3,737)
Net cash outflow from operating activities	(3,325,055)	(945,487)
Cash flows from investing activities		
Payments for plant and equipment	(2,928,188)	(5,232)
Payments for patents and development costs	-	(300,000)
Cash acquired on acquisition of subsidiary	-	195,766
Net cash outflow from investing activities	(2,928,188)	(109,466)
Cash flows from financing activities		
Proceeds from shares issued net of issue costs	3,804,291	7,353,516
Loans to related parties	-	(604,931)
Net cash inflow from financing activities	3,804,291	6,748,585
Net (decrease)/increase in cash and cash equivalents	(2,448,952)	5,693,632
Cash and cash equivalents at the beginning of the financial period	11,037,689	885,370
Foreign exchange adjustment to cash balance	20,723	24,201
Cash and cash equivalents at end of the period	8,609,460	6,603,203

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

**The Hydroponics Company Limited
Notes to the Financial Statements
For the half-year ended 30 June 2018**

1 Summary of significant accounting policies

These consolidated financial statements and notes represent those of the consolidated entity (referred to hereafter as the 'Group') consisting of The Hydroponics Company Limited (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the half-year ended 30 June 2018.

Basis of preparation

These general purpose interim financial statements have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. The accounting policies that have been adopted in the preparation of the statements are as follows:

Accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted in the Group's 2017 annual financial report for the financial year ended 31 December 2017.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the discharge of liabilities in the normal course of business.

The Group incurred a loss after tax of \$3,196,156 (2017: \$728,407) and had net cash outflows from operating activities of \$3,325,055 for the half year ended 30 June 2018. As at that date the Group had net current assets of \$10,617,025, total assets of \$37,229,273 as well as cash and cash equivalents of \$8,609,460 as at 30 June 2018.

The Directors believe that there are reasonable grounds to believe that the Group will be able to continue as a going concern, after consideration of the following factors:

- The Group has cash and cash equivalents of \$8,609,460 as at 30 June 2018. As at that date the Group had net current assets of \$10,617,025 and total assets of \$37,229,273;
- If required, the Group has the ability to continue to raise additional funds on a timely basis;
- The Group has the ability to scale back a significant portion of its development activities if required.

Accordingly, the Directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The Hydroponics Company Limited
Notes to the Financial Statements
For the half-year ended 30 June 2018

2 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The Group remained in a development phase during the period and consequently there is some uncertainty surrounding the availability of future taxable amounts to utilise tax losses. Management considers it prudent not to raise any deferred tax assets at this point in time.

Share based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of property, plant and equipment and land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity.

To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

**The Hydroponics Company Limited
Notes to the Financial Statements
For the half-year ended 30 June 2018**

3 Business combinations

	Country of Incorporation	Percentage Owned
Crystal Mountain Products Limited	Canada	100%
Dragon Vision Limited	Hong Kong	100%
0970203 B.C. Ltd	Canada	100%
- Accounting subsidiary		
Candeo Limited	Australia	100%
- Accounting subsidiary		
Canna Clinics Pty Ltd	Australia	100%
- Accounting subsidiary		
Plant Life Sciences Pty Ltd	Australia	100%
- Accounting subsidiary		
THC Pharma Pty Ltd	Australia	100%
- Accounting subsidiary		

	As at 30 June 2018	As at 31 December 2017
	\$	\$
4 Cash and cash equivalents		
Cash and cash equivalents	8,609,460	11,037,689
	8,609,460	11,037,689

5 Inventory

Inventories consist of the following:

Finished goods and merchandise	1,425,223	1,156,969
	1,425,223	1,156,969

6 Goodwill

Balance beginning of financial period	5,307,140	5,307,140
Balance at end of the financial period	5,307,140	5,307,140

The Hydroponics Company Limited
Notes to the Financial Statements
For the half-year ended 30 June 2018

7 Contributed equity

(a) Ordinary shares

Shares issued and authorised are summarised as follows:

	As at 30 June 2018		As at 31 December 2017	
	No. of Shares	\$	No. of Shares	\$
At the beginning of the period	116,808,414	17,517,047	35,400,000	1,069,932
Issue of shares pursuant to public offer	-	-	40,000,000	8,000,000
Issue of shares to acquire CMDV	-	-	9,700,000	1,940,000
Issue of shares to acquire Canndeo Limited	-	-	5,000,000	1,000,000
Issue of shares to acquire intellectual property	-	-	2,750,000	600,000
Shares issued to advisors in promoters	-	-	11,250,000	2,250,000
Entitlements issue	4,762,182	3,000,001	-	-
Share placement	-	-	12,698,414	8,000,000
Options converted	2,116,976	846,790	10,000	4,000
Shares accrued but not issued	-	255,000	-	-
Share issue expenses	-	(42,500)	-	(5,346,885)
	123,687,572	21,576,338	116,808,414	17,517,047

(b) Performance shares

Performance shares issued and authorised are summarised as follows:

	No. of Shares	\$
Performance shares		
At the beginning of the period	26,500,000	3,742,000
Performance shares cancelled	(2,000,000)	(396,000)
Balance at end of the period	24,500,000	3,346,000

The fair value of performance shares is based upon the price of the Group at issue date, adjusted for the probability of their performance milestones being achieved. The value of the performance shares, together with the probability of milestones being achieved, is assessed by the directors at least annually.

The Hydroponics Company Limited
Notes to the Financial Statements
For the half-year ended 30 June 2018

	As at 30 June 2018	As at 31 December 2017
	\$	\$
8 Reserves		
Options reserve (a)	2,716,305	2,839,100
Foreign currency translation reserve (b)	45,695	6,639
	2,762,000	2,845,739

(a) Options reserve

Balance beginning of financial period	2,839,100	88,910
Fair value of options issued during the period	-	2,774,715
Options cancelled	(372,578)	-
Share based payments accrued but not paid during the period	249,783	-
Options expired	-	(24,525)
Balance at end of the financial period	2,716,305	2,839,100

	As at 30 June 2018		As at 31 December 2017	
	No. of Options	\$	No. of Options	\$
At the beginning of the period	64,410,000	2,839,100	3,125,000	88,910
Options issued during the period	-	-	34,200,000	-
Issue of options to Vendors	-	-	7,100,000	475,700
Options issued to advisors in promoters	-	-	12,875,000	969,812
Options issued to broker of share placement	-	-	3,000,000	945,000
Share based payments accrued for but not issued during the period	-	249,783	4,120,000	359,678
Options cancelled	(4,120,000)	(372,578)	-	-
Options converted	(2,111,281)	-	(10,000)	-
	58,178,719	2,716,305	64,410,000	2,839,100

	As at 30 June 2018	As at 31 December 2017
(b) Foreign currency translation reserve		
Balance beginning of financial period	6,639	-
Movement	39,056	6,639
Balance at end of the financial period	45,695	6,639

(c) Asset revaluation reserve

Balance beginning of financial period	-	-
Movement	10,246,426	-
Balance at end of the financial period	10,246,426	-

The Hydroponics Company Limited
Notes to the Financial Statements
For the half-year ended 30 June 2018

9 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 half-year ended 30 June 2018 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:

Segment performance

	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	30 June 2018	30 June 2018	30 June 2018	30 June 2018
	\$	\$	\$	\$
Revenue				
External sales	1,276,698	-	-	1,276,698
Other	7,874	-	30,944	38,818
Total segment revenue	<u>1,284,572</u>	<u>-</u>	<u>30,944</u>	<u>1,315,516</u>
Segment operating result	6,983	(2,971,098)	(232,041)	(3,196,156)
Segment assets	<u>2,691,133</u>	<u>30,065,167</u>	<u>-</u>	<u>32,756,300</u>
	30 June 2017	30 June 2017	30 June 2017	30 June 2017
	\$	\$	\$	\$
Revenue				
External sales	323,615	-	-	323,615
Other	-	-	11,314	11,314
Total segment revenue	<u>323,615</u>	<u>-</u>	<u>11,314</u>	<u>334,929</u>
Segment operating result	38,797	(791,417)	24,213	(728,407)
Segment assets	<u>2,743,481</u>	<u>12,669,600</u>	<u>-</u>	<u>15,413,081</u>

The Hydroponics Company Limited
Notes to the Financial Statements
For the half-year ended 30 June 2018

10 Events occurring after the balance sheet date

Subsequent to balance date the company:

- Appointed Mr Ken Charteris as the Group CEO as announced to the ASX on 11 July 2018;
- Issued 500,000 shares and 1,500,000 options to the Canadian head of operations;
- Issued 500,000 shares to the new Group CEO;
- Announced the revaluation of the Southport assets of an additional value of \$14.58m as an adjusting item in the 30 June 2018 financial statements;
- Extended the due diligence period and subsequently secured an organic growing facility in Northern NSW together with offtake agreements for product with ASX Listed EVE Investments Limited (ASX.EVE);
- Executed an initial cooperation agreement with Endoca;
- Announced the cross promotion of Bio Floral in Canada with the existing CMP/DV business with the potential to distribute products across wider Canada;
- Successfully imported Endoca product into the country which was available to Medicinal Cannabis patients as of 31 July 2018.

No other matters or circumstances have arisen since 30 June 2018 that have significantly affected, or may significantly affect:

- a) The Group's operations in future financial years; or
- b) The results of those operations in future financial years; or
- c) The Group's state of affairs in future financial years.

The Hydroponics Company Limited
Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 17 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2018 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date;
 - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that The Hydroponics Company Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Steven Xu
Chairman
30 August 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Directors of The Hydroponics Company Limited

Report on the Consolidated Interim Financial Report

We have reviewed the accompanying half-year Consolidated Interim Financial Report of The Hydroponics Company Limited, which comprises the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement in changes in equity and the statement of cash flows; for the half-year then ended, a summary of significant accounting policies, other selected explanatory notes and the declaration by those charged with governance.

The Director's Responsibility for 30 June 2018 Consolidated Interim Financial Report

The Directors of the Consolidated Group are responsible for the preparation and fair presentation of the half-year Consolidated Interim Financial Report in accordance with *Accounting Standard AASB 101* and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Consolidated Interim Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standards on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, with the Corporations Law 2001. As the auditor of The Hydroponics Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of the person responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of The Hydroponics Company Pty Limited does not present fairly, in all material respects including:

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scheme approved
under Professional
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Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of The Hydroponics Company Pty Limited does not present fairly, in all material respects including:

- i. Giving a true and fair view of the entity's financial position as at 30 June 2018 and of its performance for the financial half-year ended on that date; and
- ii. Complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

KS Black & Co
Chartered Accountants



Scott Bennison
Partner

Dated: 30/8/18

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