



Formerly The Hydroponics Company Limited

ACN: 614 508 039

The background of the lower half of the page is a close-up photograph of green cannabis plants with serrated leaves.

**Appendix 4E
Preliminary Final Report
for the Year Ended
31 December 2018**

Appendix 4E

Preliminary final report

Name of entity:

THC Global Group Limited

ABN or equivalent company
reference:

33 614 508 039

1. Reporting period

Reporting period:

Year ended 31 December 2018

Previous corresponding period:

Year ended 31 December 2017

2. Results for announcement to the market

Current Year
2018
\$

2.1 Revenue from ordinary activities	Up	44%	to	2,664,094
2.2 Loss from ordinary activities for the period after tax attributable to members	Up	237%	to	8,611,270
2.3 Net loss for the period attributable to members	Down	33%	to	1,706,615
2.4 Dividends		Amount per security		Franked amount per security
Final dividend		Nil		N/A
Interim dividend		Nil		N/A
2.5 Record date for determining entitlements to the dividends	N/A			

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

Revenue and loss from ordinary activities is attributable to:

- The financial comparatives for the period to 31 December 2017 contain comparative information for businesses acquired during the 2017 financial year for the period from the date of acquisition to 31 December 2017 only. This means that revenues are not comparable on a full year of performance for those businesses;
- Revenues of CMP/DV are largely in line year on year when apportioned on a pro rate basis;
- Cost of goods have also increased proportionate to revenues, leading to a reduced gross margin on sales compared to prior periods;
- Significant professional and consulting expenditure was incurred in FY2018 as the Group undertook due diligence and acquisition of new facilities and projects;
- A \$1.2m impairment of goodwill has been recognised in the year on performance shares issued to vendors of CMP/DV and Canndeo. These shares have either lapsed without converting or it is the Directors' opinion that they will lapse without converting;
- Share based remuneration expense in the period has increased due to the expansion of the Group's directorships and KMP team. THC has issued share-based remuneration to better align director and KMP interests with those of shareholders;
- General administration and overheads have increased as a result of the Group now operating across multiple sites and facilities and geographical locations.

3. Consolidated Statement of Comprehensive Income

	Current Period 31 Dec 2018 \$	Previous Period 31 Dec 2017 \$
Revenue from continuing operations	2,664,094	1,843,991
Cost of goods sold	(1,904,336)	(1,065,903)
Gross profit	759,758	778,088
Other income	254,637	58,923
Freight and other selling expenses	(206,861)	(93,775)
Professional expenses	(1,053,108)	(346,347)
Corporate and consulting expenses	(1,155,721)	(875,882)
Bundaberg facility costs	(283,848)	-
Southport plant costs	(30,106)	-
Research and development expenses	(41,629)	-
License and registration fees	(80,434)	-
Employee benefits expense	(1,580,518)	(771,708)
Advertising and promotion expenses	(189,128)	(26,613)
Insurance expenses	(304,875)	(46,552)
Bad debts expense	(22,853)	(240,835)
Depreciation and amortisation expense	(115,135)	(23,622)
Impairment expense	(1,200,000)	(50,000)
Finance expenses	(84,054)	(10,811)
Office and occupancy expenses	(372,637)	(127,582)
Administration expenses	(963,614)	(422,131)
Share based payments	(1,941,144)	(359,678)
Loss before income tax	(8,611,270)	(2,558,525)
Income tax expense	-	-
Loss after income tax expense from continuing operations	(8,611,270)	(2,558,525)
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations, net of tax	71,458	(6,639)
Items that will not be reclassified subsequently to profit or loss		
Gain on revaluation of land and buildings, net of tax	10,246,426	-
Total comprehensive Profit/(loss) for the year	1,706,614	(2,565,164)
Attributable to:		
Members of the Parent Company		
Basic loss per share	(6.93)	(3.09)

4. Consolidated Statement of Financial Position

	Current Period 31 December 2018 \$	Previous Period 31 December 2017 \$
Current Assets		
Cash and cash equivalents	6,333,540	11,037,689
Trade and other receivables	866,623	1,287,060
Inventory	1,310,071	1,156,969
Total Current Assets	8,510,234	13,481,718
Non-Current Assets		
Trade and other receivables	1,758,963	1,169,035
Property, plant and equipment	17,727,498	638,832
Leased assets	384,577	-
Intangible assets	1,050,000	1,350,000
Goodwill	3,315,140	5,307,140
Total Non-Current Assets	24,236,178	8,465,007
Total Assets	32,746,412	21,946,725
Current Liabilities		
Trade and other payables	333,770	588,825
Total Current Liabilities	333,770	588,825
Non-Current Liabilities		
Deferred tax liability	3,886,575	-
Finance leases	408,118	-
Total Non-Current Liabilities	4,294,693	-
Total Liabilities	4,628,463	588,825
Net Assets	28,117,949	21,357,900
Equity		
Contributed equity	23,034,812	17,517,047
Other contributed equity	2,650,000	3,742,000
Reserves	13,431,615	2,845,739
Accumulated losses	(10,998,478)	(2,746,886)
Total Equity	28,117,949	21,357,900

5. Consolidated Statement of Cash Flows

	Current Period 31 December 2018	Previous Period 31 December 2017
	\$	\$
Cash flows from operating activities		
Receipts from customers	2,588,466	1,611,879
Payments to suppliers and employees	(8,466,763)	(3,529,267)
Interest received	128,340	50,280
Finance costs	(100,148)	(10,811)
Net cash used in operating activities	(5,850,105)	(1,877,919)
Cash flows from investing activities		
Payments for plant and equipment	(763,197)	(357,916)
Payments for land and buildings	(2,268,179)	-
Investment in subsidiary	(27,168)	-
Payments for intangible assets	-	(300,000)
Payments for investments	-	(296,962)
Cash acquired on acquisition of subsidiary	-	195,765
Net cash used in investing activities	(3,058,544)	(759,113)
Cash flows from financing activities		
Proceeds from shares issued net of costs	4,204,291	14,480,838
Loans to related parties	-	(1,671,949)
Net cash provided by financing activities	4,204,291	12,808,889
Net (decrease)/increase in cash and cash equivalents	(4,704,358)	10,171,857
Cash and cash equivalents at the beginning of the year	11,037,689	-
Effects of exchange rate changes on cash	209	(19,538)
Cash and cash equivalents at the end of the year	6,333,540	11,037,689

6. Consolidated Statement of Changes in Equity

	Issued capital	Other contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2018	<u>17,517,047</u>	<u>3,742,000</u>	<u>(2,746,886)</u>	<u>2,845,739</u>	<u>21,357,900</u>
Loss for the year	-	-	(8,611,270)	-	(8,611,270)
Other comprehensive income	-	-	-	10,317,884	10,317,884
Total comprehensive loss for the year	-	-	(8,611,270)	10,317,884	1,706,614
Transactions with owners in their capacity as owners:					
Shares issued in the year	3,000,001	-	-	-	3,000,001
Costs of capital raising	(42,500)	-	-	-	(42,500)
Performance shares cancelled	-	(1,092,000)	-	-	(1,092,000)
Options exercised	1,246,790	-	-	-	1,246,790
Options expired/cancelled	-	-	359,678	(359,678)	-
Equity based payments	1,313,474	-	-	627,670	1,941,144
Balance at 31 December 2018	<u>23,034,812</u>	<u>2,650,000</u>	<u>(10,998,478)</u>	<u>13,431,615</u>	<u>28,117,949</u>
Balance at 1 January 2017	<u>1,069,932</u>	<u>-</u>	<u>(212,886)</u>	<u>102,188</u>	<u>959,234</u>
Loss for the year	-	-	(2,558,525)	-	(2,558,525)
Other comprehensive income	-	-	-	(6,639)	(6,639)
Total comprehensive loss for the year	-	-	(2,558,525)	(6,639)	(2,565,164)
Transactions with owners in their capacity as owners:					
Shares issued in the period	21,794,000	-	-	-	21,794,000
Costs of capital raising	(5,346,885)	-	-	-	(5,346,885)
Performance shares issued	-	3,742,000	-	-	3,742,000
Options issued	-	-	-	2,774,715	2,774,715
Options expired/cancelled	-	-	24,525	(24,525)	-
Balance at 31 December 2017	<u>17,517,047</u>	<u>3,742,000</u>	<u>(2,746,886)</u>	<u>2,845,739</u>	<u>21,357,900</u>

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

Date dividend is payable

N/A

⁺Record date to determine entitlements to the dividend

N/A

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

N/A

Amount per security

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

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

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

8. Dividend or distribution plans in operation

N/A

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

N/A

9. NTA backing

	Current Period 2018 Cents per Share	Previous Period 2017 Cents per Share
Net tangible asset backing (deficiency) per ordinary share	19	12

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

Controlled entities

	Country of Incorporation	Percentage Owned	Date Control Gained
THC Pharma Pty Ltd	Australia	100%	10 April 2018
THC Pharma (NZ) Limited	New Zealand	100%	30 October 2018
Vertical Canna Inc.	Canada	100%	16 October 2018

11. Details of associates and joint venture entities

N/A

12. Significant information

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

- 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 statement of financial position at over \$16 million;
- Please refer to section 2.6 above for information on the Group's financial performance.

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

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

14. Commentary on the results for the period

14.1 Earnings per security (EPS)

	Current Period 2018	Previous Period 2017
Basic Loss per share	(6.93 cents)	(3.09 cents)

14.2 Returns to shareholders (Including distributions and buy backs)

	Current Period 2018 \$	Previous Period 2017 \$
Ordinary securities	-	-
Preference securities	-	-
Other equity instruments	-	-
Total	-	-

14.3 Significant features of operating performance

Revenue and loss from ordinary activities is attributable to:

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- Revenues of CMP/DV are largely in line year on year when apportioned on a pro rate basis;
- Cost of goods have also increased proportionate to revenues, leading to a reduced gross margin on sales compared to prior periods;
- Significant professional and consulting expenditure was incurred in FY2018 as the Group undertook due diligence and acquisition of new facilities and projects;
- A \$1.2m impairment of goodwill has been recognised in the year on performance shares issued to vendors of CMP/DV and Candeo. These shares have either lapsed without converting or it is the Directors' opinion that they will lapse without converting;
- Share based remuneration expense in the period has increased due to the expansion of the Group's directorships and KMP team. THC has issued share-based remuneration to better align director and KMP interests with those of shareholders;
- General administration and overheads have increased as a result of the Group now operating across multiple sites and facilities and geographical locations.

14.4 Segment Information

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

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

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

The main source of revenue for these operating segments in the year to 31 December 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:

	Hydroponics Equipment, Materials and Nutrients 31 Dec 2018 \$	Medicinal Cannabis 31 Dec 2018 \$	Unallocated 31 Dec 2018 \$	Total 31 Dec 2018 \$
Revenue				
External sales	2,663,279	815	-	2,664,094
Other	-	-	-	-
Total segment revenue	2,663,279	815	-	2,664,094
Segment operating result	(230,721)	(498,269)	-	(728,990)
Segment assets	2,443,541	7,654,960	-	28,349,114

	31 Dec 2017	31 Dec 2017	31 Dec 2017	31 Dec 2017
	\$	\$	\$	\$
Revenue				
External sales	1,843,991	-	-	1,843,991
Other	-	-	-	-
Total segment revenue	1,843,991	-	-	1,843,991
Segment operating result	137,898	(554,256)	-	(416,358)
Segment assets	1,982,811	243,079	-	2,225,890

14.5 Report on trends in performance

Cashflows

- Investing cash outflows increased from \$759k to \$3.06m in the period as the Group purchased a bio-pharmaceutical manufacturing facility and established a cannabis growing facility.

Revenue

- The financial comparatives for the period to 31 December 2017 contain comparative information for businesses acquired during the 2017 financial year for the period from the date of acquisition to 31 December 2017 only. This means that revenues are not comparable on a full year of performance for those businesses;
- Revenues of CMP/DV are largely in line year on year when apportioned on a pro rate basis;

Expenses

- Cost of goods have also increased proportionate to revenues, leading to a reduced gross margin on sales compared to prior periods;
- Significant professional and consulting expenditure was incurred in FY2018 as the Group undertook due diligence and acquisition of new facilities and projects;
- A \$1.2m impairment of goodwill has been recognised in the year on performance shares issued to vendors of CMDV and Canndeo. These shares have either lapsed without converting or it is the Directors' opinion that they will lapse without converting;
- Share based remuneration expense in the period has increased due to the expansion of the Group's directorships and KMP team. THC has issued share based remuneration to better align director and KMP interests with those of shareholders;
- General administration and overheads have increased as a result of the Group now operating across multiple sites and facilities.

Balance Sheet

- 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 statement of financial position at over \$16 million;
- A \$1.2m impairment of goodwill has been recognised in the year on performance shares issued to vendors of CMDV and Canndeo. These shares have either lapsed without converting or it is the Directors' opinion that they will lapse without converting.

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

Significant professional and consulting expenditure was incurred in FY2018 as the Group undertook due diligence and related compliance costs of developing its business and asset base. Throughout the period there were a number of shareholder meetings as required to manage the needs of the Group which had an increasing effect on administration and professional costs.

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

N/A

15. Compliance statement

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

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

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

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

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

N/A

Sign here:


.....
Company Secretary

Date: 28 February 2019

Print name: Henry Kinstlinger