Candy Club Holdings Limited

ACN 629 598 778

Annual Report - 31 December 2018

Candy Club Holdings Limited
Corporate directory
31 December 2018

Directors	Mr Keith Cohn (Executive Director) Mr Robert Hines (Non-Executive Chairperson) Mr Zachry Rosenberg (Non Executive Director) Mr Chi Kan Tang (Non-Executive Director)
Company secretary	Mr Justyn Stedwell
Registered office	C/- Moray & Agnew Lawyers Level 6, 505 Little Collins Street Melbourne VIC 3000, Australia
Principal place of business	12950 Culver Boulevard Suite 150 Los Angeles, CA 90066, USA
Share register	Automic Group Level 5, 126 Phillip Street Sydney NSW 2000, Australia
Auditor	HLB Mann Judd (Vic) Partnership Level 9, 575 Bourke Street, Melbourne VIC 3000, Australia
Solicitors	Moray & Agnew Lawyers Level 6, 505 Little Collins Street, Melbourne VIC 3000, Australia
Stock exchange listing	Candy Club Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: CLB)
Website	https://www.candyclub.com
Corporate Governance Statement	Refer to https://www.candyclub.com

Candy Club Holdings Limited
Directors' report
31 December 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Candy Club Holdings Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2018.

Directors
The following persons were directors of Candy Club Holdings Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Keith Kohn (appointed 24 October 2018)
Robert Hines (appointed 24 October 2018)
Chi Kan Tang (appointed 24 October 2018)
Zachry David Rosenberg (appointed 24 October 2018)
James Baillieu (appointed 7 February 2019 and resigned 28 February 2019)

Principal activities
During the financial period the principal continuing activities of the consolidated entity consisted of:
- applying for admission to the official list of the Australian Securities Exchange ("ASX") and to raise funds in order to meet its business objectives; and
- online and business to business candy distribution.

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

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $1,298,090.

The company was incorporated as an Australian public company on 24 October 2018. The company then completed the acquisition of the US-based confectionary company Candy Club Holdings, Inc on 12 November 2018 and proceeded with its immediate plans to list on the Australian Securities Exchange (ASX). On 14 February 2019 Candy Club was admitted to the Official List of the ASX and its shares commenced trading on ASX on 19 February 2019 following the completion of its successful initial public offer (IPO) raising $5,024,004, before costs.

The company continues to focus its attention on its key priorities, expanding its B2B wholesale business, running its core subscription business as efficiently as possible and managing expenses in order to drive towards profitability as quickly as possible.

Candy Club's B2B wholesale business, which launched in July '18 , has more than doubled the locations which carry the company's product line to over 2,000 retail outlets in Q1 '19 from just over 1,000 in Q4 '18.

While we are happy with the 100% quarter over quarter growth in retail outlets carrying our products, this is still just a fraction of the thousands of other retail outlets the Company is targeting to carry its high- end specialty confectionery. Candy Club continues to expand its retail partnerships with both national and independent retailers. The Company is having success selling to a wide range of verticals, including department stores, women's apparel shops, hotels and resorts, gift stores and candy outlets. The Hallmark Stores, MGM Resorts, Candytopia, Lord & Taylor are just a few of the recognizable retailers who currently carry the Company's confectionery products.

Strong retail sell through in 2018 and an aggressive sales push in Q1 2019 are combining to expand the number of retail partners carrying our confectionery products. Our rapid expansion into the retail marketplace is further validation of our strong product market fit. Given the size of the addressable market, this is only a small fraction of where we believe our products will ultimately be sold.

The direct to customer (D2C) subscription business continues its positive momentum as new marketing leadership combined with a revamped and diversified customer acquisition strategy have contributed to a ~40% decrease in customer acquisition costs since early December 2018.

Candy Club's D2C subscription business has now partnered with Verizon, an American telecommunications provider, who began offering Candy Club D2C subscriptions to its high- valued customers in February 2019. These partnerships are part of the Company's new customer acquisition strategy as it looks to diversify away from traditional paid media sources in favour of more cost effective corporate partnerships. It is noted that a significant number of new subscribers for the D2C subscription business in February 2019 came through this program, which is a key factor in the Company's improved customer acquisition cost of $26 per customer month to date in February 2019, which has been reduced from $50 per customer in late 2018.

Continued operating improvements in both business units along with strong expense management are combining to drive improvements to the company's bottom line.

The opportunity to build a large specialty market confectionary business exists because of the sheer size of the market opportunity in the USA, with the USA confectionary market expected to grow to $40 USD Billion by 2023. The Company aims to meet the needs of both retailers and consumers as it executes an omni-channel strategy by onboarding new retail accounts and consumer subscriptions as it builds out its overall business strategy.

Candy Club continues to execute well in all segments of its business. We are off to a strong start in 2019 in both the wholesale and direct-to-consumer segments. With the recent completion of the IPO, the addition of a few key hires and several cost containment measures in place, we now turn our full attention to building the best specialty market confectionary business in the industry.

Significant changes in the state of affairs
The company was incorporated on 24 October 2018.

On 12 November 2018, the company issued 75,303,017 fully paid ordinary shares as consideration for the acquisition of 100% of the issued capital of Candy Club Holdings Inc.

On 13 November 2018, the company issued 17,744,881 fully paid ordinary shares on the conversion of convertible notes valued at $US 1,639,710

On 28 November 2018, the company issued 1,014,998 fully paid ordinary shares to settle operating liabilities totalling $298,169.

There were no other significant changes in the state of affairs of the consolidated entity during the financial period.

Matters subsequent to the end of the financial period
On 19 February 2019, the company successfully completed its IPO, and was officially admitted onto the Australian Securities Exchange. Under its IPO, the company issued 25,120,020 fully paid ordinary raising $5,024,004 before costs. The below table summaries the consolidated entities financial position after completion of IPO.

	Post IPO Unaudited
Summary of financial position	
Cash and cash equivalents	1,772,500
Trade and other receivables	324,741
Inventories	2,753,571
Other current assets	205,456
Property, plant and equipment	54,186
Intangible assets	7,209
Trade and other payables	(3,210,092)
Net assets	1,907,571

On 19 February 2019, the company issued 7,244,312 fully paid ordinary shares to its lead broker and its associates as consideration for services rendered during the IPO process.

On 19 February the company issued 2,000,000 options over ordinary shares to its lead broker and its associates as consideration for services rendered during the IPO process. The options have a 4 year term and exercise price of 30 cents.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation
The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Keith Cohn
Title:	(Executive Director)
Experience and expertise:	Keith founded the Candy Club Business in 2014 and currently serves as the Chief Executive Officer of the Company. Keith has over 20 years of consumer industry experience and has held various executive marketing roles in the industry. Keith began his career as a Product Manager for Parkers Brothers, a division of Hasbro, Inc in managing the product lines of toys. He then proceeded to work as a Senior Product manager for Mattel, Inc. Keith subsequently worked at Equity Marketing, Inc, where he served as Vice President of the consumer division and was responsible for negotiating master licensing agreements with Universal Studios, Warner Bros. Entertainment Inc. and Lyrick Studios and launched product lines on a worldwide basis.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	9,091,947 fully paid ordinary shares
Interests in options:	631,333 options over ordinary shares
Interests in rights:	2,000,000 performance rights

Name:	Robert Hines
Title:	(Non-Executive Chairperson)
Experience and expertise:	Robert has been a member of the Australian Institute for Company Directors (AICD) since 1997, including serving on the AICD Board in Queensland from 2000 to 2004. Mr Hines has held a number of Board positions since 2001, including Chairman of Genetraks Ltd, Group Chairman of the CEO Circle, executive director of VeCommerce Ltd and non-executive director of Sportsbet Pty Ltd. He was also a member of the Advisory Board of Griffith University from 2002 to 2004.
Other current directorships:	Nil
Former directorships (last 3 years):	Donaco International Limited (ASX:DNA) resigned 31 December 2018.
Interests in shares:	Nil
Interests in options:	Nil
Interests in rights:	Nil

Name:	Chi Kan Tang
Title:	(Non Executive Director)
Qualifications:	Kan is a qualified Chartered Professional Accountant (CPA) and qualified Chartered Financial Analyst (CFA) and holds a Bachelor of Commerce from the University of Alberta.
Experience and expertise:	Kan is the founding partner of Asia Summit Capital, a private equity firm established in 2014, focused on consumer growth and the technology sector in Indonesia and Southeast Asia. Prior to this, Kan developed considerable experience in the online and landbase gaming industry with particular expertise in markets within the Asia-Pacific region. In 2003, Kan co-founded AsianLogic Limited, a Hong Kong based gaming company. During his time at Asianlogic, he took on numerous senior roles and responsibilities from CFO in the early stages of the company growth, to Business Development Director and was promoted to Chief Officer of Asianlogic from 2009 to 2014. Kan has also launched a series of SMEs including multiple F&B, leisure and 7-Eleven franchises in Hong Kong and the Philippines.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	20,438,189 fully paid ordinary shares
Interests in options:	Nil
Interests in rights:	Nil

Name:	Zachry David Rosenberg
Title:	(Non Executive Director)
Qualifications:	Zachry holds a Bachelor of Commerce from Monash University.
Experience and expertise:	Zachry is the Founding Partner of Capital Zed, a private growth capital investor based out of Melbourne, Australia, with significant minority investments in Australia, New Zealand, the USA, Hong Kong and the United Kingdom. His current board roles include Unleashed Software Limited (New Zealand), The Influential Network (USA), Predictive Hire Pty Ltd (Australia) and Intelledox Pty Ltd (Australia), as well as a number of private investment companies and vehicles.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	2,374,895 fully paid ordinary shares
Interests in options:	Nil
Interests in rights:	2,000,000 performance rights

Name:	Mr James Baillieu
Title:	(Non Executive Director - appointed 7 February 2019 and resigned 28 February 2019)
Qualifications:	James holds an LLB (First Class Honours) and Bachelor of Arts from the University of Melbourne
Experience and expertise:	James previously served as Senior Vice President of Business Development at Aconex Limited (ASX:ACX) and was an early investor in and consultant to Aconex Limited. James spent more than seven years as a consultant with McKinsey & Co, assisting businesses in Australia and internationally with strategy and operational improvement. James was previously a lawyer who practised in commercial law with Mallesons Stephen Jacques in the 1990s.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	N/A

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary
Justyn Stedwell is a professional Company Secretary consultant with over eleven years' experience as a Company Secretary of ASX listed companies in a wide range of industries. His qualifications include a Bachelor of Commerce (Management and Economics) from Monash University, a Graduate Diploma of Accounting from Deakin University and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. He is currently the Company Secretary of several ASX listed companies including Broo Limited (ASX:BEE), Imugene Limited (ASX:IMU), Golden Mile Resources Limited (ASX:G88), TBG Diagnostics Limited (ASX:TDL), Lifespot Health Limited (ASX:LSH) and Eagle Health Holdings Limited (ASX: EHH).

Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') held during the period ended 31 December 2018, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Keith Cohn	1	1
Robert Hines	1	1
Chi Kan Tang	1	1
Zachry David Rosenberg	1	1

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)
The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration
The company observed the following factors in setting remuneration:
- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:
- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:
- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration
Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the board. The board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. This has yet to be determined and will be set up the company's first annual general meeting.

Executive remuneration
The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has two components:
- base pay and non-monetary benefits
- share-based payments

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

Use of remuneration consultants
The consolidated entity has not made use of remuneration consultants.

Details of remuneration

Amounts of remuneration
Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
24 Oct to 31 Dec 18	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Robert Hines	12,240	-	-	-	-	-	12,240
Zachry Rosenberg	8,160	-	-	-	-	-	8,160
Chi Kan Tang	8,160	-	-	-	-	-	8,160
Executive Directors:							
Keith Cohn	47,630	-	-	-	-	12,993	60,623
	76,190	-	-	-	-	12,993	89,183

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration 24 Oct to 31 Dec 18	At risk - STI 24 Oct to 31 Dec 18	At risk - LTI 24 Oct to 31 Dec 18
Non-Executive Directors:			
Robert Hines	100%	-	-
Zachry Rosenberg	100%	-	-
Chi Kan Tang	100%	-	-
Executive Directors			
Keith Cohn	79%	-	21%

Service agreements
Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Keith Cohn
Title:	Executive Director
Term of agreement:	US$275,000 per annum (approximately $385,000), plus an allowance of US$1,750 per month

Name:	Robert Hines
Title:	Non-Executive Chairperson
Term of agreement:	$60,000 per annum (plus superannuation)

Name:	Zachry Rosenberg
Title:	Non-Executive Director
Term of agreement:	$40,000 per annum (plus superannuation)

Name:	Chi Kan Tang
Title:	Non-Executive Director
Term of agreement:	$40,000 per annum (plus superannuation).

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Non-executive directors were not entitled to any remuneration during the current period.

Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the period ended 31 December 2018.

Options
The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial period or future reporting years are as follows:

Grant date	Number of options exercisable date	Expiry date	Exercise price ($US)
5 November 2015 and 1 July 2016	543,665	48 months from grant date	$1.1700
11 November 2018	87,668	11 March 2020	$1.1700

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the period ended 31 December 2018.

Additional information
The earnings of the consolidated entity since listing are summarised below:

	2018 $
Sales revenue	1,037,442
Loss after income tax	(1,298,090)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2018
Basic earnings per share (cents per share)	(1.73)
Diluted earnings per share (cents per share)	(1.73)

Additional disclosures relating to key management personnel

Shareholding
The number of shares in the company held during the financial period by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the period
Ordinary shares					
Mr Keith Cohn	-	-	-	9,091,947	9,091,947
Mr Zachry Rosenberg	-	-	-	2,374,895	2,374,895
Mr Chi Kan Tang	-	-	-	20,438,189	20,438,189
	-	-	-	31,905,031	31,905,031

Option holding
The number of options over ordinary shares in the company held during the financial period by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
Options over ordinary shares					
Keith Cohn	-	87,668	-	543,665	631,333
	-	87,668	-	543,665	631,333

Performance shares
On 28 November 2018, both Keith Cohn and Zachry Rosenberg were issued 2,000,000 performance rights each, convertible into 2,000,000 fully paid ordinary shares upon the achievement of the milestones referred to below on or before the date being three (3) years from the date of the company's Admission to the ASX. There are 4 classes with each recipient receiving 500,000 of each class:

- Class A - the company achieving accumulated revenue of at least $15,000,000 within any 12 month period prior to the expiry date of the performance shares;
- Class B - the company achieving accumulated revenue of at least $20,000,000 within any 12 month period prior to the expiry date of the performance shares;
- Class C - the company achieving accumulated revenue of at least $25,000,000 within any 12 month period prior to the expiry date of the performance shares;
- Class D - the company achieving accumulated revenue of at least $30,000,000 within any 12 month period prior to the expiry date of the performance shares;

The company was not admitted to the ASX until February 2019, meaning that the vesting period did not start in the current financial period and therefore no expense has been recognised in relation to these performance rights.

This concludes the remuneration report, which has been audited.

Shares under option
Unissued ordinary shares of Candy Club Holdings Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
Between 30 March 2015 and 12 September 2016 *	48 months from the date of grant	$1.6577	687,488
Between 5 April 2017 and 15 August 2018 **	48 months from the date of grant	$0.0041	1,582,128
19 February 2019	48 months from the date of grant	$0.3000	2,000,000
11 November 2018 *	11 March 2020	$1.6570	87,668
			4,357,284

* Exercise price is US$1.17
** Exercise price is US$0.0029

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options
There were no ordinary shares of Candy Club Holdings Limited issued on the exercise of options during the period ended 31 December 2018 and up to the date of this report.

Indemnity and insurance of officers
The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

Since the end of the financial period, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial period, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 19 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 19 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of HLB Mann Judd (Vic) Partnership
There are no officers of the company who are former partners of HLB Mann Judd (Vic) Partnership.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor
HLB Mann Judd (Vic) Partnership was appointed in accordance with section 327 of the Corporations Act 2001.

Candy Club Holdings Limited
Directors' report
31 December 2018

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Keith Cohn
Executive Director

29 March 2019

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Candy Club Holdings Limited for the period ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to Candy Club Holdings Limited and the entities it controlled during the period.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Jude Lau
Partner

Melbourne
29 March 2019

General information

The financial statements cover Candy Club Holdings Limited as a consolidated entity consisting of Candy Club Holdings Limited and the entities it controlled at the end of, or during, the period. The financial statements are presented in Australian dollars, which is Candy Club Holdings Limited's functional and presentation currency.

Candy Club Holdings Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

C/- Moray & Agnew Lawyers
Level 6, 505 Little Collins Street
Melbourne VIC 3000, Australia

Principal place of business

12950 Culver Boulevard
Suite 150
Los Angeles, CA 90066, USA

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29 March 2019. The directors have the power to amend and reissue the financial statements.

Candy Club Holdings Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2018

	Note	Consolidated 24 Oct to 31 Dec 18 $
Revenue	5	1,037,442
Interest revenue calculated using the effective interest method		15
Expenses		
Raw materials and consumables used		(702,277)
Corporate and administration expenses		(252,257)
Marketing and promotional expenses		(413,923)
Employee benefits expense		(551,141)
Development expenses		(99,610)
Depreciation and amortisation expense		(6,368)
Technology expenses		(48,075)
Property expenses		(64,341)
Other expenses		(177,210)
Finance costs		(20,345)
Loss before income tax expense		(1,298,090)
Income tax expense	6	-
Loss after income tax expense for the period attributable to the owners of Candy Club Holdings Limited		(1,298,090)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation		(87,122)
Other comprehensive income for the period, net of tax		(87,122)
Total comprehensive income for the period attributable to the owners of Candy Club Holdings Limited		(1,385,212)
		Cents
Basic earnings per share	26	(1.73)
Diluted earnings per share	26	(1.73)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Candy Club Holdings Limited
Statement of financial position
As at 31 December 2018

	Note	Consolidated 31 Dec 18 $
Assets		
Current assets		
Cash and cash equivalents		12,496
Trade and other receivables	7	172,466
Inventories	8	2,449,498
Other	9	845,005
Total current assets		3,479,465
Non-current assets		
Property, plant and equipment		65,049
Intangibles		7,300
Other	10	75,684
Total non-current assets		148,033
Total assets		3,627,498
Liabilities		
Current liabilities		
Trade and other payables	11	4,199,303
Borrowings	12	578,067
Contract liabilities	13	174,551
Total current liabilities		4,951,921
Total liabilities		4,951,921
Net liabilities		(1,324,423)
Equity		
Issued capital	14	16,132,144
Reserves	15	(16,158,477)
Accumulated losses		(1,298,090)
Total deficiency in equity		(1,324,423)

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

Candy Club Holdings Limited
Statement of changes in equity
For the period ended 31 December 2018

Consolidated	**Issued capital $**	**Reserves $**	**Accumulated losses $**	**Total deficiency in equity $**
Balance at 24 October 2018	-	-	-	-
Loss after income tax expense for the period	-	-	(1,298,090)	(1,298,090)
Other comprehensive income for the period, net of tax	-	(87,122)	-	(87,122)
Total comprehensive income for the period	-	(87,122)	(1,298,090)	(1,385,212)
Commonly controlled reserve recognised on acquisition of Candy Club LLC	-	(17,197,977)	-	(17,197,977)
Share based payment reserve transferred on acquisition of Candy Club LLC	-	1,083,131	-	1,083,131
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 14)	16,132,144	-	-	16,132,144
Share based payments (note 27)	-	43,491	-	43,491
Balance at 31 December 2018	16,132,144	(16,158,477)	(1,298,090)	(1,324,423)

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

Candy Club Holdings Limited
Statement of cash flows
For the period ended 31 December 2018

	Note	Consolidated 24 Oct to 31 Dec 18 $
Cash flows from operating activities		
Receipts from customers		1,044,014
Payments to suppliers and employees		(2,059,738)
		(1,015,724)
Interest received		15
Net cash used in operating activities	25	(1,015,709)
Cash flows from investing activities		
Payments for property, plant and equipment		(7,270)
Cash acquired from commonly controlled acquisition		485,727
Net cash from investing activities		478,457
Cash flows from financing activities		
Proceeds from issue of shares	14	200
Proceeds from borrowings		567,192
Share issue transaction costs		(29,206)
Net cash from financing activities		538,186
Net increase in cash and cash equivalents		934
Cash and cash equivalents at the beginning of the financial period		-
Effects of exchange rate changes on cash and cash equivalents		11,562
Cash and cash equivalents at the end of the financial period		12,496

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below.

New or amended Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. As the company was only incorporated on 24 October 2018, it has applied both AASB 9 and AASB 15 from its incorporation.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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 settlement of liabilities in the ordinary course of business. The consolidated entity incurred a loss from ordinary activities of $1,298,090 for the period ended 31 December 2018, and had a net working capital deficiency of $1,472,456. In addition, the consolidated entity had negative cash from operating activities of $1,004,147.

The directors have reviewed the cashflow forecasts and believe that there are reasonable grounds to believe that the consolidated entity will be able to continue as a going concern due to the following factors:

- On 19 February 2019, the company successfully completed its IPO, and was officially admitted onto the Australian Securities Exchange. Under its IPO, the company issued 25,120,020 fully paid ordinary raising $5,024,004 before costs. Refer to Note 24 for summary of the consolidated financial position after completion of the IPO;
- The consolidated entity has recently entered the business to business market and is expecting this to generate increased revenues going forward. As a result of this change in the business model the consolidated entity has incurred higher than expected losses; and
- Management has reviewed all expenditures and made savings that will reduce the level of operating expenses going forward and recognises that diligence is required to manage the consolidated entity's cash flows as it embarks its business strategies over the coming 12 months. In addition management is exploring the possibilities of securing finance facilities as a means of providing the consolidated entity with flexibility in relation to its working capital.

Accordingly, the Directors believe that the consolidated entity 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 financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessarily incurred should the company not continue as a going concern.

Reporting period
The company was incorporated on 24 October 2018. This financial report covers the period from that date until 31 December 2018. For this reason the report does not include any comparative information.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Note 1. Significant accounting policies (continued)

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 22.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Candy Club Holdings Limited ('company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the period then ended. Candy Club Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting, unless it is an acquisition involving entities or businesses under common control. For common control acquisitions the excess of the purchase price over the identifiable fair value of net assets acquired, is recognised in equity as a reserve.

A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Board of Directors being the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Candy Club Holdings Limited's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. The exchange difference from the translation of any net investment in foreign entities and of borrowings and other financial instruments so designated as hedges of such investments, is recognised in other comprehensive income.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Note 1. Significant accounting policies (continued)

Revenue recognition
The consolidated entity recognises revenue as follows:

Revenue from contracts with customers
Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity:

- identifies the contract with a customer;
- identifies the performance obligations in the contract;
- determines the transaction price which takes into account estimates of variable consideration and the time value of money;
- allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
- recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods
Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. No element of financing is deemed present as the sales are made with credit term of 30 days.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:
- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Note 1. Significant accounting policies (continued)

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Trade receivables are amounts due from customers for goods sold in the ordinary course of business. Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days. The consolidated entity holds accounts receivable with the objective of collecting the contracted cashflows.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories
Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	4-5 years
Computer equipment	2 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Note 1. Significant accounting policies (continued)

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Website
Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life.

Software
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Borrowings are derecognised when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount extinguished and the consideration paid, including any non cash assets transferred or liabilities assumed is recognised in profit and loss as other finance costs.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and directors in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

Note 1. Significant accounting policies (continued)

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:
- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Candy Club Holdings Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Note 1. Significant accounting policies (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The company plans to adopt the standard when it becomes effective for the year ending 31 December 2019 and expects to apply the standard using the modified retrospective approach. The Group also expects the ROU assets recognised at date of initial application to be equal to their lease liabilities.

The company is likely to elect the practical expedient not to reassess whether a contract contains a lease at the date of initial application. Accordingly, existing lease contracts that are still effective on 1 January 2019 continue to be accounted for as lease contracts under AASB 16. The company has performed a preliminary assessment of the impact on its financial statements based on its existing operating lease arrangements.

The company expects its existing operating lease arrangements to be recognised as ROU assets with corresponding lease liabilities under AASB 16, as at 31 December 2018, these amounted to $1,287,448.

Note 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.

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were 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.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets have not been recognised in relation to tax losses as their realisation has not been deemed probable.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Common controlled acquisition
On 12 November 2018, the company acquired 100% of the Candy Club Holdings Group. The consideration for this acquisitions was 75,303,017 fully paid shares valued at $11,031,892.

In determining the accounting treatment to be applied to these acquisitions, the directors gave consideration to the fact that the company and the CCH Group were controlled by the same group of shareholders before and after the acquisition. Accordingly, it was determined that the acquisition met the definition of a transaction between entities under common control as outlined in AASB 3, whereby the variance between the purchase consideration and the net assets acquired is recognised in reserves on consolidation. A reserve of $17,197,977 has been recognised in relation to this acquisition.

Note 3. Differences between preliminary and final report

There are material differences between the preliminary financial report dated 28 February 2018 and this financial report . These relate to the following:-

- The preliminary report incorrectly recognised the period in which debt was converted by the company's subsidiary as being after the acquisition when it was converted before. This had the effect of reducing issued capital and reducing the value of the negative common control reserve by $2,273,243. This has no impact on the reported net asset position;
- There were adjustment made during the audit of the US subsidiary which led to revenue and expense being recognised in different periods. This resulted in a change of $442,458 in the common control reserve. The overall net change to the common control reserve was $1,830,785; and
- There have been other immaterial changes to the reported statements financial position and performances.

Note 4. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into one operating segment, being the candy distribution in the United States of America. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

Note 5. Revenue

	Consolidated 24 Oct to 31 Dec 18 $
Sales of goods	1,037,442

Note 5. Revenue (continued)

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated 24 Oct to 31 Dec 18 $
Major revenue streams	
Sale of goods - business to customer	950,168
Sale of goods - business to business	87,274
	1,037,442
Geographical regions	
United States of America	1,037,442
Timing of revenue recognition	
Goods transferred at a point in time - being when shipped and ownership transfers	1,037,442

Note 6. Income tax expense

	Consolidated 24 Oct to 31 Dec 18 $
Numerical reconciliation of income tax expense and tax at the statutory rate	
Loss before income tax expense	(1,298,090)
Tax at the statutory tax rate of 27.5%	(356,975)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:	
Tax effect of different tax rates in US	58,186
US tax losses not recognised	390,178
US state taxes	(110,344)
Tax losses not recognised	15,899
Non deductible items	3,056
Income tax expense	-

	Consolidated 24 Oct to 31 Dec 18 $
Australian tax losses not recognised	
Unused tax losses for which no deferred tax asset has been recognised	57,814
Potential tax benefit @ 27.5%	15,899

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 6. Income tax expense (continued)

US tax losses
The company's US subsidiaries have total tax losses valued at 7,512,522 that have not been recognised as the recovery of this benefit is uncertain. The tax losses are yet to be tested to ensure that they will be able to be utilised by the US subsidiaries after their acquisition by the company.

Note 7. Current assets - trade and other receivables

	Consolidated 31 Dec 18 $
Trade receivables	56,629
Other receivables	107,628
BAS receivable	8,209
	172,466

Note 8. Current assets - inventories

	Consolidated 31 Dec 18 $
Stock on hand - at cost	2,484,762
Less: Provision for impairment	(35,264)
	2,449,498

Note 9. Current assets - other

	Consolidated 31 Dec 18 $
Prepayments	83,205
Prepaid IPO costs	761,800
	845,005

On 19 February 2019, the company was admitted onto the ASX, at which point the prepaid IPO costs have been recognised as a cost of capital raising.

Note 10. Non-current assets - other

	Consolidated 31 Dec 18 $
Security deposits	75,684

Note 11. Current liabilities - trade and other payables

	Consolidated 31 Dec 18 $
Trade payables	2,826,440
Interest payable	9,470
Other payables	1,363,393
	4,199,303

Refer to note 17 for further information on financial instruments.

All trade and other payables are unsecured liabilities

Note 12. Current liabilities - borrowings

	Consolidated 31 Dec 18 $
Bridging finance - from director related entities	578,067

Refer to note 17 for further information on financial instruments.

The bridging finance was a short term facility from director related entities to provide working capital prior to the company's listing on the ASX. This was repaid in full in February 2019, once the funds from the company's IPO were received. Interest was payable at 20% per annum. This amount was repaid in full with funds raised from the company's IPO in February 2019.

Note 13. Current liabilities - contract liabilities

	Consolidated 31 Dec 18 $
Deferred revenue	174,551

Note 14. Equity - issued capital

	Consolidated	
	31 Dec 18 Shares	31 Dec 18 $
Ordinary shares - fully paid	106,726,399	16,132,144

Note 14. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Incorporation founder shares issued	24 October 2018	20,001	$0.0100	200
Investment in Candy Club Holdings Inc	12 November 2018	75,303,017	$0.1465	11,031,892
Conversion of debt	13 November 2018	29,488,494	$0.1634	4,817,863
Settlement of liabilities	28 November 2018	1,914,887	$0.1557	298,169
Cost of capital raising		-	$0.0000	(15,980)
Balance	31 December 2018	106,726,399		16,132,144

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. Refer to going concern disclosures in Note 1.

Note 15. Equity - reserves

	Consolidated 31 Dec 18 $
Foreign currency reserve	(87,122)
Share-based payments reserve (Refer to Note 27)	1,126,622
Commonly controlled reserve	(17,197,977)
	(16,158,477)

Foreign currency reserve
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 15. Equity - reserves (continued)

Commonly controlled reserve
This reserve is used to account for commonly controlled acquisitions, and the reserve represents the excess of the purchase price over the identifiable fair value of net assets acquired from US subsidiaries.

On 12 November 2018, the company acquired 100% of the Candy Club Holdings Group. The consideration for this acquisitions was 75,303,017 fully paid shares valued at $11,031,892.

In determining the accounting treatment to be applied to these acquisitions, the directors gave consideration to the fact that the company and the CCH Group were controlled by the same group of shareholders before and after the acquisition. Accordingly, it was determined that the acquisition met the definition of a transaction between entities under common control as outlined in AASB 3, whereby the variance between the purchase consideration and the net assets acquired is recognised in reserves on consolidation.

Movements in reserves
Movements in each class of reserve during the current financial period are set out below:

Consolidated	Foreign currency $	Share based payments $	Commonly controlled $	Total $
Balance at 24 October 2018	-	-	-	-
Foreign currency translation	(87,122)	-	-	(87,122)
Commonly controlled acquisition	-	1,083,131	(17,197,977)	(16,114,846)
Share based payments	-	43,491	-	43,491
Balance at 31 December 2018	(87,122)	1,126,622	(17,197,977)	(16,158,477)

Note 16. Equity - dividends

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

Note 17. Financial instruments

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange, ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk
The consolidated entity is exposed to foreign exchange risk in relation to the operation of its subsidiaries in the United States of America. It does not hedge any of these risks as the US denominated debts are expected to be paid with from US dollar denominated income.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Note 17. Financial instruments (continued)

The carrying amount of the consolidated entity's foreign currency denominated assets and financial at the reporting date were as follows:

Consolidated	Assets 31 Dec 18 $	Liabilities 31 Dec 18 $
US dollars	2,850,047	4,584,082

	AUD strengthened			AUD weakened		
Consolidated - 31 Dec 18	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
US dollars	10%	-	(173,403)	10%	-	173,403

Price risk
The consolidated entity is not exposed to any significant price risk.

Interest rate risk
The consolidated entity is not exposed to significant interest rate risk. Its only borrowings were short term bridging finance with a fixed interest rate.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity is not exposed to significant credit risk, as it has only just entered the business to business market. The majority of its revenue for the period came from business to customer sales where payment is received before delivery is made. The total trade receivable balance at 31 December 2018 was $56,629. There was no impairment of trade receivables during the period. Average credit terms are 30 days.

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Refer to going concern disclosures in Note 1.

Note 17. Financial instruments (continued)

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 31 Dec 18	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	2,826,440	-	-	-	2,826,440
Other payables	-	1,363,393	-	-	-	1,363,393
Interest-bearing - variable						
Bridging finance	20.00%	578,067	-	-	-	578,067
Total non-derivatives		4,767,900	-	-	-	4,767,900

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value, and none of the consolidated entity's financial instruments are recorded at fair value after initial recognition.

Note 18. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 24 Oct to 31 Dec 18 $
Short-term employee benefits	76,190
Share-based payments	12,993
	89,183

Note 19. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by HLB Mann Judd (Vic) Partnership, the auditor of the company, and its network firms:

	Consolidated 24 Oct to 31 Dec 18 $
Audit services - HLB Mann Judd (Vic) Partnership	
Audit or review of the financial statements	26,000
Other services - related parties of HLB Mann Judd (Vic) Partnership	
Tax due diligence	3,500
Independent accountant's report	27,500
	31,000
	57,000
Audit services - network firms	
Audit or review of the financial statements	66,500

Note 20. Commitments

	Consolidated 31 Dec 18 $
Lease commitments - operating	
Committed at the reporting date but not recognised as liabilities, payable:	
Within one year	264,836
One to five years	1,003,416
	1,268,252

Operating lease commitments relate to the consolidated entity's premises in the United States of America. The lease commenced on 1 August 2018, and has a 5 year term with annual uplifts of 3.5%

Note 21. Related party transactions

Parent entity
Candy Club Holdings Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 23.

Key management personnel
Disclosures relating to key management personnel are set out in note 18 and the remuneration report included in the directors' report.

Note 21. Related party transactions (continued)

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated 24 Oct to 31 Dec 18 $
Payment for other expenses:	
Interest accrued to key management personnel and their related entities. Interest has been charged at 20% per annum.	20,345

Receivable from and payable to related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated 31 Dec 18 $
Current payables:	
Other payables to key management personnel	574,703
Interest payable to key management personnel and their related entities	9,470

Loans to/from related parties
The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated 31 Dec 18 $
Current borrowings:	
Loan from key management personnel and their related entities	578,067

Note 22. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent 24 Oct to 31 Dec 18 $
Loss after income tax	(57,812)
Total comprehensive income	(57,812)

Note 22. Parent entity information (continued)

Statement of financial position

	Parent 31 Dec 18 $
Total current assets	777,453
Total assets	16,305,725
Total current liabilities	231,392
Total liabilities	231,392
Equity	
Issued capital	16,132,145
Accumulated losses	(57,812)
Total equity	16,074,333

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2018.

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2018

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2018.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 23. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest 31 Dec 18 %
Candy Club Holdings Inc.	USA	100.00%
Candy Club LLC	USA	100.00%

On 12 November 2018, the Company entered into a Share Purchase Agreement to effect the acquisition of 100% of Candy Club Holdings Inc. for a consideration of $11.032 million. By this transaction, the Company obtained control of Candy Club Holdings Inc. In determining the accounting treatment to be applied, the Directors gave consideration to the fact that the Company and Candy Club Holdings Inc. were controlled by the same group of shareholders before and after the acquisition. Accordingly, it was determined that the acquisition met the definition of a transaction between entities under common control as outlined in AASB 3, whereby the variance between the purchase consideration paid and the net assets acquired is recognised in equity on consolidation. The impact of this transaction is set out in the tables below:

Note 23. Interests in subsidiaries (continued)

	Acquisition date value
Summary of asset and liabilities acquired:	
Cash and cash equivalents	485,726
Trade and other receivables	186,300
Inventories	2,420,816
Other current assets	443,803
Plant and equipment	61,191
Intangible assets	7,843
Other non-current assets	73,832
Trade and other payables	(3,793,479)
Accrued interest	(164,304)
Borrowings	(4,623,917)
Contract liabilities	(181,813)
Share based payment reserve	(1,082,083)
Net assets/(liabilities) acquired net of options reserve	(6,166,085)

	Other reserve
The other reserves recognised in relation to the common control acquisition has the following components	
Net liabilities acquired net of options reserve	6,166,085
Value of consideration shares (Note 14)	11,031,892
Total reserve recognised (Note 15)	17,197,977

Note 24. Events after the reporting period

On 19 February 2019, the company successfully completed its IPO, and was officially admitted onto the Australian Securities Exchange. Under its IPO, the company issued 25,120,020 fully paid ordinary raising $5,024,004 before costs. The below table summaries the consolidated entities financial position after completion of IPO.

	Post IPO
Summary of financial position	
Cash and cash equivalents	1,772,500
Trade and other receivables	324,741
Inventories	2,753,571
Other current assets	205,456
Property, plant and equipment	54,186
Intangible assets	7,209
Trade and other payables	(3,210,092)
Net assets	1,907,571

On 19 February 2019, the company issued 7,244,312 fully paid ordinary shares to its lead broker and its associates as consideration for services rendered during the IPO process.

Note 24. Events after the reporting period (continued)

On 19 February the company issued 2,000,000 options over ordinary shares to its lead broker and its associates as consideration for services rendered during the IPO process. The options have a 4 year term and exercise price of 30 cents.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 25. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 24 Oct to 31 Dec 18 $
Loss after income tax expense for the period	(1,298,090)
Adjustments for:	
Depreciation and amortisation	6,368
Share-based payments	43,491
Accrued interest	20,345
Change in operating assets and liabilities:	
Decrease in trade and other receivables	13,835
Increase in inventories	(28,682)
Increase in other operating assets	(1,276)
Increase in trade and other payables	235,563
Decrease in other operating liabilities	(7,263)
Net cash used in operating activities	(1,015,709)

Note 26. Earnings per share

	Consolidated 24 Oct to 31 Dec 18 $
Loss after income tax attributable to the owners of Candy Club Holdings Limited	(1,298,090)
	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	74,925,607
Weighted average number of ordinary shares used in calculating diluted earnings per share	74,925,607
	Cents
Basic earnings per share	(1.73)
Diluted earnings per share	(1.73)

Note 27. Share-based payments

As part of the corporate restructure whereby the company acquired all the issued share capital in CCH, the company agreed to assume the obligations of CCH pursuant to an employee share option plan adopted by CCH (CCH ESOP). Under such arrangement, the company, CCH and the holders of options under the CCH ESOP have agreed to convert the entitlements of the optionees under the CCH ESOP into 2,269,616 Options (CCH ESOP Options) which will entitle the holders of the CCH ESOP Options to receive up to 2,269,616 Shares upon payment of the relevant exercise price referred to below on or before the relevant expiry date.

This amendments to the scheme has been deemed to be a continuation of the existing scheme. For this reason an amount of $1,083,131 was transferred to the share based payment reserve upon acquisition of CCH. A share based payment expense of $43,491 has been recognised since the acquisition.

The CCH ESOP Options are subject to a vesting condition that the holder of the options continue to be employed by the consolidated entity, whereby the options shall vest and be exercisable by such holders in accordance with the following:

- 25% of the CCH ESOP Options shall vest and be exercisable on the date being 12 months from the date of grant of the relevant CCH ESOP Options; and
- 75% of the CCH ESOP Options shall vest and be exercisable rateably on a monthly basis for the remaining 36 months prior to the expiry date of the relevant CCH ESOP Options.

On 11 November 2018, 87,688 options were granted to Keith Cohn as consideration for termination of an option that he held to acquire his shares in the company. The terms of options are as follows:

	Balance at the start of the period	Granted	Granted on acquisition of CCH	Balance at the end of the period
	-	87,668	2,269,616	2,357,284
	-	87,668	2,269,616	2,357,284
Weighted average exercise price		$1.6577	$0.5050	$0.5479

The weighted average remaining contractual life of options outstanding at the end of the financial period was 2.36 years.

The fair value of the options granted to employees is considered to represent the value of the employee services received over the vesting period.

For the options granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
11/11/2018	11/03/2020	$0.2000	$1.6250	100.00%	-	1.75%	$0.008

Candy Club Holdings Limited
Directors' declaration
31 December 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial period ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, taking into accounts the matters outlined in the going concern disclosures in Note 1 of the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Keith Cohn
Executive Director

29 March 2019

Independent Auditor's Report to the Members of Candy Club Holdings Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Candy Club Holdings Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the period then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Regarding Going Concern

We draw attention to the Going Concern note as contained in Note 1 of the financial report, which indicates that the Group incurred a net loss of $1,298,090 during the period ended 31 December 2018 and, as of that date, the current liabilities exceeded its current assets by $1,472,456. As stated in the Going Concern note as contained in Note 1 of the financial report, these events or conditions, along with other matters as set forth in the Going Concern note as contained in Note 1 of the financial report, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
Acquisition of controlled entities Refer to note 23 - Interests in subsidiaries	
During the period ended 31 December 2018, the Company acquired Candy Club Holdings Inc. and its controlled entity (referred to as “acquired entities”) as part of its planned listing on the Australian Securities Exchange (“ASX”). The directors considered the requirements of *AASB 3 Business combinations* to assess if the transaction met the definition of a “business combination” as per the requirements of the standard. The directors concluded that the transaction did not meet the definition of a “business combination” but represented a transaction between entities under common control as outlined in AASB 3. Due to the significant judgement required to determine if the transaction met the definition of a common control transaction, the acquisition of the acquired entities was assessed to be a key audit matter.	We assessed management’s evaluation of the adopted accounting treatment and performed the following procedures amongst others: • Reviewed the terms and conditions of the share purchase agreement (“SPA”) and details of the controlling entities before and after the transaction to ensure that the treatment applicable to a transaction between entities under common control was met. • Tested the value of the identifiable assets acquired and liabilities assumed at acquisition date, ensuring that no fair value uplift was recognised in determining the value of the common control reserve. • Reviewed the adopted disclosures made in the financial statements.

Information Other than the Financial Report and Auditor’s Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the period ended 31 December 2018, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

HLB MANN JUDD

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the period ended 31 December 2018.

In our opinion, the Remuneration Report of Candy Club Holdings Limited for the period ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Jude Lau
Partner

Melbourne
29 March 2019

Candy Club Holdings Limited
Shareholder information
31 December 2018

The shareholder information set out below was applicable as at 19 February 2019.

Distribution of equitable securities
Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1,001 to 5,000	5
5,001 to 10,000	102
10,001 to 100,000	216
100,001 and over	130
	453
Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Chi Kan Tang	21,188,189	15.23
Instanz Nominees Pty Ltd (Hearts A/C)	12,562,500	9.03
Sabone Internet Investments LLC	7,591,549	5.46
James Clive Know Baiillieu	6,534,682	4.70
KEC Ventures II LP	5,322,351	3.83
Safari Capital Pty Ltd	4,333,474	3.12
CVC Limited	4,333,474	3.12
Hamilton Hawkes Pty Ltd (Whitcombe Family Acc)	4,275,460	3.07
Bedwell Pty Ltd (Bedwell Discretionary Acc)	4,256,509	3.06
10 Bolivianos Pty Ltd	3,354,011	2.41
Crosscut Ventures 3 LP	2,804,870	2.02
Chris Bollenbach	2,634,241	1.89
Rouse Equities Pty Ltd	2,181,305	1.57
Citicorp Nominees Pty Ltd	2,125,000	1.53
TGF Holdings (QLD) Pty Ltd (T Ford Super Acc)	1,835,514	1.32
Instanz Employee Investment Pty Ltd (Instanz Investment Acc)	1,775,620	1.28
RJIR Pty Ltd (ZDR Family Acc)	1,775,620	1.28
Cerdik	1,688,452	1.21
Neysa Demann	1,500,398	1.08
Kentsurf Pty Ltd (Chambers Super Fund Acc)	1,400,000	1.01
	93,473,219	67.22

Unquoted equity securities
There are no unquoted equity securities.

Candy Club Holdings Limited
Shareholder information
31 December 2018

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Chi Kan Tang	21,188,189	15.23
Keith Cohn	9,091,947	6.54

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.