

Candy Club Holdings Limited

ACN 629 598 778

Annual Report - 31 December 2021

Candy Club Holdings Limited
Corporate directory
31 December 2021

Directors	Mr Keith Cohn (Executive Director) Mr Andrew Clark (Non Executive Director) Mr James Baillieu (Non Executive Chairman) Mr Chi Kan Tang (Non-Executive Director)
Company secretary	Ms Nova Taylor
Registered office	C/- Automic Registry Services Level 5, 126 Phillip Street, SYDNEY, NSW, AUSTRALIA, 2000
Principal place of business	5855 Green Valley Circle Suite 101 Culver City, CA 90230
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) Candy Club Holdings Limited options are listed on the Australian Securities Exchange (ASX code: CLBO)
Website	https://www.candyclub.com
Corporate Governance Statement	Refer to https://www.candyclub.com

Candy Club Holdings Limited
Directors' report
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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 year ended 31 December 2021.

Directors

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

Keith Cohn
Chi Kan Tang
James Baillieu
Andrew Clark

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- business to business and online candy distribution in the United States.

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$US7,921,955 (31 December 2020: \$US4,535,042).

Candy Club saw the B2B segment continue to scale as revenue from this business line grew 118% from \$US6,645,435 in 2020 to \$US14,470,550 in 2021. Total revenue for 2021 was \$US16,540,956.

Candy Club's B2B segment saw the total number of retail doors shipped in FY2021 nearly double as it grew from 14,000 doors in 2020 to 27,000 doors in 2021. Candy Club experienced significant growth in both the number of retail doors carrying its product resulting from signing partnerships with large US national retailers as well as growth in its B2B eCommerce platform customers.

It should be noted that the growth the Company experienced in 2021 occurred despite the significant headwinds from the COVID-19 pandemic which dramatically curtailed brick and mortar retail activity in the US, especially in the first half of 2021.

Candy Club continues to see good growth in the number of new national retailers it has secured in Q1 2022 for shipments in Q2 – Q4 2022 as brick and mortar retailers begin to resume more normalized operations.

Candy Club's outstanding performance in 2021 was driven by a combination of strong new customer acquisition and a 90%+ reorder rate every quarter by its top customers.

Candy Club's B2C subscription business continues to be managed for an optimum ROI. This segment's largest variable expense is its cost per acquisition ("CPA"), which increased to US\$24 in 2021 vs. \$US17, but still well below our target CPA.

The B2C segment remains a key part of the Company's overall strategy and supports the B2B business by helping with product and manufacturing efficiencies. Candy Club believes that this can be accomplished through efficient new customer acquisition channels in conjunction with repeat business from existing customers, new product development, consumer facing advertising, expanded partnerships with existing & new business partners, leveraging big-data customer insights to continually improve the company's products & programs.

In Q1 2022 the Company signed new deals with its existing 3rd party logistics partner and lead transportation provider. Combined with a previously announced price increase that went into effect on January 1, 2022, the Company is on track to expand its gross margins in 2022 despite all of the headwinds impacting worldwide supply chains.

Significant changes in the state of affairs

During the year company issued the following shares :-

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- 2,614 fully paid ordinary shares raising US\$8 on the conversion of options;
- 7,102,088 fully paid ordinary shares valued at US\$685,972 on the conversion of short term debt
- 60,866,326 fully paid ordinary shares raising US\$9,252,732 before costs; and
- 8,942,168 fully paid ordinary shares with a value of US\$1,142,862 to settle debt issuance fee on the consolidated entity's debts in the United States

In addition, the company issued 16,432,000 options over ordinary shares during the current year to key management personnel or under the ESOP.

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

Matters subsequent to the end of the financial year

On 12 January 2022, a total of 74,124 options over ordinary shares lapsed unexercised.

Also on 12 January 2022, the company issued 105,000 unlisted options under the employee incentive scheme. The options have an exercise price of AU\$13.5 cents and expire on 9 June 2025.

On 9 March 2022, 2,000,000 performance rights held by Keith Cohn and another former director were converted into ordinary shares following satisfaction of performance conditions. In addition, on the same date 2,000,000 performance rights lapsed due to conditions not being satisfied.

Since 31 December 2021, the consolidated entity has engaged a leading mid-market US based investment bank that specialises in food and beverage to help it explore strategic opportunities in the US.

No other matter or circumstance has arisen since 31 December 2021 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.

Business risks

Below is a summary of the key business risk relating to the consolidated entity.

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Item	Summary
Sufficiency of funding	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.
Consumer demand	If consumers do not perceive the Candy Club-branded confectionery to be of sufficient quality, value or novelty, the consolidated entity may be unable to acquire new customers or retain existing customers, adversely affecting the consolidated entity's business operations and profitability.
Customer acquisition costs	Customer demand for subscription plans of the Candy Boxes is currently generated, in part, from paid online media sources such as Facebook and Google. Customer acquisition costs, in particular from online media sources may rise in the future and in such circumstances the consolidated entity could find it difficult to acquire customers at a price sufficient to make a profit.
Food safety and hygiene	Selling food for human consumption carries inherent risks related to food safety. The business carried on by the consolidated entity may be adversely affected to the extent there are any food safety incidents involving the Candy Club branded confectionery (such as tampering or contamination).
Supply of confectionery	While the consolidated entity is not dependent on any one supplier of confectionery, its business operations may be affected by the failure of a supplier to meet its contractual obligations to the consolidated entity or to supply products that meet the consolidated entity's production standards. Any such failure by a supplier may have adverse implications on the consolidated entity's business.
Privacy and Data	The consolidated entity is reliant on third party suppliers for data processing and payment services, and the consolidated entity and such suppliers collect, store and transmit significant amounts of customer information. Any security breach or interruption in service may adversely affect the consolidated entity's reputation and substantially interrupt the consolidated entity's business operations.
Intellectual Property	The success of Candy Club's business operations is reliant on its intellectual property, such as customer data, trademarks, domain names, copyrights and know-how. If competitors utilise or infringe the consolidated entity's intellectual property, the consolidated may be adversely affected.
Reliance on Key Personnel	The consolidated entity is heavily reliant on key personnel, including the consolidated entity's Executive Director, Mr Keith Cohn and Non-Executive Director Andrew Clark. Candy Club's continued success depends on the continuing efforts and retention of its management team and staff, and if it is not able to attract highly skilled staff to support its planned growth, its business operations may be impacted.

Environmental regulation

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

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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. In 2000, Mr. Cohn founded Vendare Media, a leading venture-backed online performance marketing company. Cohn led this high-growth, digital marketing enterprise from pre-revenue to US \$150,000,000 in annual sales in five years. The Company pioneered email, lead generation and network advertising platforms in the early days of online marketing. He subsequently founded Bardon Advisors, a successful Search-based digital marketing company focused on high-value SEM marketing which he later sold in 2010.

Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 9,497,811 fully paid ordinary shares
Interests in options: 20,950,000 options over ordinary shares
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: 52,372,566 fully paid ordinary shares
Interests in options: 11,214,718 options over ordinary shares
Interests in rights: Nil
Contractual rights to shares: Convertible note with a face value of \$US 250,000.

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Name: Mr James Baillieu
Title: Non Executive Director
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. He also served as a non-executive director of Bidenergy Ltd (ASX: BID). 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): Bidenergy Ltd (ASX: BID) - resigned 22 February 2019
Interests in shares: 95,597,309 fully paid ordinary shares
Interests in options: 25,161,509 options over ordinary shares
Interests in rights: Nil
Contractual rights to shares: Convertible note with a face value of \$US 400,000.

Name: Andrew Clark
Title: Non-Executive Director
Experience and expertise: Andrew Clark has a wealth of knowledge gained in executive and senior leadership positions whilst working for more than 20 years in the Consumer Goods sector. Andrew's experiences have included domestic and global roles held in large multi-national and national public businesses and smaller private equity businesses covering manufacturer/supplier, wholesaler/retailer and technology/platform operations in the Australian, UK and US markets. Andrew has held various roles at Cadbury Schweppes, Reckitt Benckiser (including Global Sales Development Director and USA Vice President Trade Marketing); Nestle (Head of Sales and Category); Metcash (General Manager Merchandise: Food and Non-Food) and irexchange (CEO - FMCG).
Other current directorships: Nil
Former directorships (last 3 years): Nil
Interests in shares: 3,138,130 fully paid ordinary shares
Interests in options: 7,025,000 options over ordinary shares

'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 secretaries

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.

On 25 January 2021, Nova Taylor was appointed as joint company secretary. She has 4 years working in company secretary and assistant company secretary roles for listed entities. She previously worked for Computershare Investor Services Pty Ltd in various roles for 10 years and has a Bachelor of Law from Deakin University.

On 3 February 2022, Justyn Stedwell resigned as company secretary and the role is held solely by Nova Taylor.

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Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 31 December 2021, and the number of meetings attended by each director were:

	Full Board Attended	Held
Keith Cohn	9	9
Chi Kan Tang	9	9
Andrew Clark	9	9
James Baillieu	9	9

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 the 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 board 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 performance 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.

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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. The annual level of non-executive remuneration was set a maximum of \$AU250,000 at the company's 2019 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 three components:

- base pay and non-monetary benefits
- short term performance incentives
- share based payments
- other amounts such as superannuation and leave

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 board 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.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. The Board reviewed the long-term equity-linked performance incentives.

Consolidated entity performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the consolidated entity. A portion of cash bonus and incentive payments are dependent on targets being met. Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the last four years.

Use of remuneration consultants

The consolidated entity has not made use of remuneration consultants.

Voting and comments made at the company's 30 July 2021 Annual General Meeting ('AGM')

At the 30 July 2021 AGM, 83.3% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2020. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

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.

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2021	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total \$US
	Cash salary and fees	Consulting fees	Bonus	Super-annuation	Long service leave	Equity-settled options	Issue of shares	
	\$US	\$US	\$US	\$US	\$US	\$US	\$US	
<i>Non-Executive Directors:</i>								
Chi Kan Tang	30,056	-	-	-	-	-	-	30,056
Andrew Clark	41,327	382,800	-	4,029	-	202,372	-	630,528
James Baillieu	37,570	-	-	-	-	-	-	37,570
<i>Executive Director:</i>								
Keith Cohn	346,700	-	112,000	-	-	431,152	-	889,852
	<u>455,653</u>	<u>382,800</u>	<u>112,000</u>	<u>4,029</u>	<u>-</u>	<u>633,524</u>	<u>-</u>	<u>1,588,006</u>

2020	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total \$US
	Cash salary and fees	Consulting fees	Bonus	Super-annuation	Long service leave	Equity-settled options	Issue of shares	
	\$US	\$US	\$US	\$US	\$US	\$US	\$US	
<i>Non-Executive Directors:</i>								
Andrew Clark	37,983	212,014	-	3,608	-	96,351	78,892	428,848
<i>Executive Director:</i>								
Keith Cohn	293,917	-	150,000	-	-	540,024	100,000	1,083,941
	<u>331,900</u>	<u>212,014</u>	<u>150,000</u>	<u>3,608</u>	<u>-</u>	<u>636,375</u>	<u>178,892</u>	<u>1,512,789</u>

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2021	2020	2021	2020	2021	2020
<i>Non-Executive Directors:</i>						
Chi Kan Tang	100%	100%	-	-	-	-
Andrew Clark	68%	59%	-	-	32%	41%
James Baillieu	100%	100%	-	-	-	-
<i>Executive Directors</i>						
Keith Cohn	39%	27%	13%	14%	48%	59%

Cash bonuses are dependent on meeting defined performance measures. The amount of the bonus is determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'.

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The proportion of the cash bonus paid/payable or forfeited is as follows:

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2021	2020	2021	2020
<i>Executive Directors:</i>				
Keith Cohn	75%	100%	25%	-

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
 Details: US\$275,000 per annum plus an allowance of US\$1,750 per month. Employment can be terminated by either party at any time with or without reason and with or without notice.

Name: James Baillieu
 Title: Non-Executive Chairman
 Details: \$AU 50,000 per annum (plus superannuation)

Name: Andrew Clark
 Title: Non-Executive Director
 Details: \$AU 55,000 per annum (plus superannuation)

In addition, the company also had a consultancy agreement with Andrew Clark whereby he may be engaged to provide consulting services at the monthly rate of US\$25,000 per month pro-rata.

Name: Chi Kan Tang
 Title: Non-Executive Director
 Details: \$AU 40,000 per annum (plus superannuation).

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

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2021.

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 year or future reporting years are as follows:

Grant date	Number of options	Expiry date	Exercise price (\$US)
19 July 2021	8,025,000	24 August 2024	\$US0.1772

Options granted carry no dividend or voting rights.

All options were granted over unissued fully paid ordinary shares in the company. The number of options granted was determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'. Options vest based on the provision of service over the vesting period whereby the executive becomes beneficially entitled to the option on vesting date. Options are exercisable by the holder as from the vesting date. There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise.

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Additional information

The earnings of the consolidated entity for the four years to 31 December 2021 are summarised below:

	2021 \$US	2020 \$US	2019 \$US	2018 \$US
Sales revenue	16,540,956	8,673,772	4,705,618	748,789
Net loss attributable to owners	(7,921,955)	(4,535,042)	(5,453,516)	(936,820)

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

	2021	2020	2019	2018
Share price at financial year end (\$AU) *	0.09	0.13	0.07	-
Total dividends declared (cents per share) (\$US)	-	-	-	-
Basic earnings per share (cents per share) (\$US)	(2.34)	(1.86)	(3.75)	(1.22)
Diluted earnings per share (cents per share) (\$US)	(2.34)	(1.86)	(3.75)	(1.22)

* On 19 February 2019, the company successfully completed its IPO, and was officially admitted onto the Australian Securities Exchange.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year 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 year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Keith Cohn	10,957,619	-	40,192	(2,500,000)	8,497,811
Chi Kan Tang	31,011,429	-	20,051,082	-	51,062,511
James Baillieu	63,988,942	-	30,658,367	-	94,647,309
Andrew Clark	2,831,780	-	306,350	-	3,138,130
	<u>108,789,770</u>	<u>-</u>	<u>51,055,991</u>	<u>(2,500,000)</u>	<u>157,345,761</u>

Option holding

The number of options over ordinary shares in the company held during the financial year 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 year	Received as part of remuneration	Additions	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Keith Cohn	15,600,000	5,350,000	-	-	20,950,000
Chi Kan Tang	11,214,718	-	-	-	11,214,718
James Baillieu	25,161,506	-	-	-	25,161,506
Andrew Clark	4,350,000	2,675,000	-	-	7,025,000
	<u>56,326,224</u>	<u>8,025,000</u>	<u>-</u>	<u>-</u>	<u>64,351,224</u>

Loans from key management personnel and their related parties

Entities related to James Baillieu and Chi Kan Tang had short term loans with a face value of \$US650,000 outstanding at 31 December 2021 with interest being accrued at 1% per month. These loans may be converted into fully paid ordinary shares at the discretion of the lender. Loans with a face value of US\$600,000 plus accrued interest were converted during the year upon the issue of 7,102,088 fully paid ordinary shares. The interest expense for the year ended 31 December 2021 on these loans was \$US99,223, and the total accrued interest balance is US\$152,962.

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Performance shares

On 28 November 2018, both Keith Cohn and Zachry Rosenberg (now resigned) 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 \$AU15,000,000 within any 12 month period prior to the expiry date of the performance shares;
- Class B - the company achieving accumulated revenue of at least \$AU20,000,000 within any 12 month period prior to the expiry date of the performance shares;
- Class C - the company achieving accumulated revenue of at least \$AU25,000,000 within any 12 month period prior to the expiry date of the performance shares;
- Class D - the company achieving accumulated revenue of at least \$AU30,000,000 within any 12 month period prior to the expiry date of the performance shares;

An expense of \$AU15,231 (\$US11,445) has been recognised in relation to these performance shares. Half of this amount relates to Keith Cohn and has been included in the remuneration report.

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:

Issue date	Expiry date	Exercise price	Number under option
Between 5 April 2017 and 15 August 2018	48 months from the date of grant	\$US0.0029	167,279
19 February 2019	48 months from the date of grant	\$US0.2310	2,000,000
13 June 2019 and 7 November 2019	31 May 2023	\$US0.0770	42,253,897
3 July 2019	27 March 2023	\$US0.1194	2,578,165
14 November 2019	23 October 2023	\$US0.0585	160,000
17 January 2020 *	15 January 2024	\$US0.0000	3,100,000
17 January 2020	15 January 2024	\$US0.1540	5,200,000
17 January 2020	15 January 2024	\$US0.1926	5,200,000
17 January 2020	15 January 2024	\$US0.2311	5,200,000
17 January 2020	31 May 2023	\$US0.7700	27,744,939
17 April 2020	31 May 2023	\$US0.7700	6,175,000
5 June 2020	5 June 2023	\$US0.0394	1,613,672
13 August 2020	31 May 2023	\$US0.0770	1,250,000
11 September 2020	11 September 2020	\$US0.0761	595,142
24 December 2020	31 May 2023	\$US0.1386	3,000,000
13 January 2021	31 January 2025	\$US0.1001	1,165,000
8 March 2021	4 March 2015	\$US0.1540	5,067,000
2 June 2021	6 May 2025	\$US0.1316	95,000
19 July 2021	19 July 2025	\$US0.1772	8,025,000
22 December 2021	22 December 2025	\$US0.0982	2,080,000
12 January 2022	9 June 2025	\$US0.9785	105,000
			122,775,094

* Exercise price is 150% of the company's 10 day VWAP immediately prior to exercise.

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.

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Shares issued on the exercise of options

The following ordinary shares of Candy Club Holdings Limited were issued during the year ended 31 December 2021 and up to the date of this report on the exercise of options granted:

Date of conversion	Exercise price	Number of shares issued
9 February 2021	\$US0.0029	2,614

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 year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, 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

There were no non-audit services provided during the financial year by the auditor.

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 and continues in office in accordance with section 327 of the Corporations Act 2001.

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

30 March 2022

Auditor's independence declaration

As lead auditor for the audit of the consolidated financial report of Candy Club Holdings Limited for the year ended 31 December 2021, 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 the Candy Club Holdings Limited and the entities it controlled during the year.



**HLB Mann Judd
Chartered Accountants**

Melbourne
30 March 2022



**Jude Lau
Partner**

hlb.com.au

HLB Mann Judd (VIC Partnership) ABN 20 696 861 713

Level 9, 575 Bourke Street, Melbourne VIC 3000 | GPO Box 2850, Melbourne VIC 3001

T: +61 (0) 3 9606 3888 F: +61 (0) 3 9606 3800 E: mailbox@hlbvic.com.au

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Candy Club Holdings Limited

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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 US dollars, which is Candy Club Holdings Limited's 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/- Automic Registry Services
Level 5, 126 Phillip Street,
SYDNEY, NSW, AUSTRALIA, 2000

Principal place of business

5855 Green Valley Circle
Suite 101
Culver City, CA 90230

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 30 March 2022. The directors have the power to amend and reissue the financial statements.

Candy Club Holdings Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2021

	Note	Consolidated 2021 \$US	2020 \$US
Revenue	5	16,540,956	8,673,772
Other income	6	-	302,434
Interest revenue calculated using the effective interest method		113	64
Expenses			
Cost of sales		(10,039,150)	(5,373,371)
Corporate and administration expenses		(1,448,514)	(1,466,327)
Marketing and promotional expenses		(6,128,990)	(2,380,205)
Employee benefits expense		(3,501,273)	(2,614,669)
Development expenses		(82,656)	(109,348)
Depreciation and amortisation expense	7	(169,584)	(161,699)
Technology expenses		(268,602)	(183,949)
Property expenses		(41,284)	(23,275)
Other expenses		(1,386,890)	(595,631)
Finance costs	7	<u>(1,396,081)</u>	<u>(602,838)</u>
Loss before income tax expense		(7,921,955)	(4,535,042)
Income tax expense	8	<u>-</u>	<u>-</u>
Loss after income tax expense for the year attributable to the owners of Candy Club Holdings Limited		(7,921,955)	(4,535,042)
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(141,820)</u>	<u>(427,305)</u>
Other comprehensive loss for the year, net of tax		<u>(141,820)</u>	<u>(427,305)</u>
Total comprehensive loss for the year attributable to the owners of Candy Club Holdings Limited		<u><u>(8,063,775)</u></u>	<u><u>(4,962,347)</u></u>
		Cents	Cents
Basic earnings per share	31	(2.34)	(1.86)
Diluted earnings per share	31	(2.34)	(1.86)

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

Candy Club Holdings Limited
Consolidated statement of financial position
As at 31 December 2021

	Note	Consolidated 2021 \$US	2020 \$US
Assets			
Current assets			
Cash and cash equivalents		5,203,752	2,018,492
Trade and other receivables	9	1,763,019	448,667
Inventories	10	7,094,141	3,554,504
Other	12	377,376	294,360
Total current assets		<u>14,438,288</u>	<u>6,316,023</u>
Non-current assets			
Property, plant and equipment		46,967	5,286
Right-of-use assets	11	844,902	315,367
Intangibles		91,851	17,123
Other	12	47,105	29,500
Total non-current assets		<u>1,030,825</u>	<u>367,276</u>
Total assets		<u>15,469,113</u>	<u>6,683,299</u>
Liabilities			
Current liabilities			
Trade and other payables	13	2,174,793	1,838,789
Borrowings	14	2,062,292	1,385,155
Lease liabilities	15	592,804	80,400
Total current liabilities		<u>4,829,889</u>	<u>3,304,344</u>
Non-current liabilities			
Borrowings	14	5,280,634	1,412,059
Lease liabilities	15	129,826	117,695
Total non-current liabilities		<u>5,410,460</u>	<u>1,529,754</u>
Total liabilities		<u>10,240,349</u>	<u>4,834,098</u>
Net assets		<u>5,228,764</u>	<u>1,849,201</u>
Equity			
Issued capital	16	32,495,417	21,835,441
Reserves	17	(8,419,320)	(9,060,862)
Accumulated losses		(18,847,333)	(10,925,378)
Total equity		<u>5,228,764</u>	<u>1,849,201</u>

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

Candy Club Holdings Limited
Consolidated statement of changes in equity
For the year ended 31 December 2021

Consolidated	Issued capital \$US	Reserves \$US	Accumulated losses \$US	Total equity \$US
Balance at 1 January 2020	15,344,101	(10,126,314)	(6,390,336)	(1,172,549)
Loss after income tax expense for the year	-	-	(4,535,042)	(4,535,042)
Other comprehensive loss for the year, net of tax	-	(427,305)	-	(427,305)
Total comprehensive loss for the year	-	(427,305)	(4,535,042)	(4,962,347)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 16)	6,491,340	-	-	6,491,340
Share based payments (note 17) and (note 32)	-	1,492,757	-	1,492,757
Balance at 31 December 2020	<u>21,835,441</u>	<u>(9,060,862)</u>	<u>(10,925,378)</u>	<u>1,849,201</u>
Consolidated	Issued capital \$US	Reserves \$US	Accumulated losses \$US	Total equity \$US
Balance at 1 January 2021	21,835,441	(9,060,862)	(10,925,378)	1,849,201
Loss after income tax expense for the year	-	-	(7,921,955)	(7,921,955)
Other comprehensive loss for the year, net of tax	-	(141,820)	-	(141,820)
Total comprehensive loss for the year	-	(141,820)	(7,921,955)	(8,063,775)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 16)	10,659,976	-	-	10,659,976
Share based payments (note 17) and (note 32)	-	783,362	-	783,362
Balance at 31 December 2021	<u>32,495,417</u>	<u>(8,419,320)</u>	<u>(18,847,333)</u>	<u>5,228,764</u>

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

Candy Club Holdings Limited
Consolidated statement of cash flows
For the year ended 31 December 2021

	Note	Consolidated 2021 \$US	2020 \$US
Cash flows from operating activities			
Receipts from customers		15,016,954	8,362,540
Payments to suppliers and employees		(25,157,318)	(13,339,222)
		(10,140,364)	(4,976,682)
Interest received		113	64
Other revenue		-	13,812
Interest and other finance costs paid		(957,244)	(443,084)
Net cash (used) in operating activities	28	(11,097,495)	(5,405,890)
Cash flows from investing activities			
Payments for property, plant and equipment		(53,507)	-
Payments for intangibles		(96,663)	-
Net cash (used) in investing activities		(150,170)	-
Cash flows from financing activities			
Proceeds from issue of shares and options		9,252,740	4,559,244
Proceeds from borrowings		7,778,000	3,449,622
Share issue transaction costs		(421,598)	(218,517)
Repayment of borrowings		(1,857,000)	(760,497)
Repayment of lease liabilities		(140,823)	(174,713)
Net cash from financing activities		14,611,319	6,855,139
Net increase in cash and cash equivalents		3,363,654	1,449,249
Cash and cash equivalents at the beginning of the financial year		2,018,492	543,342
Effects of exchange rate changes on cash and cash equivalents		(178,394)	25,901
Cash and cash equivalents at the end of the financial year		<u>5,203,752</u>	<u>2,018,492</u>

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

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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.

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 \$US7,921,955 for the period ended 31 December 2021 (2020: \$US4,535,042) and had negative cash from operating activities of \$US11,097,495 (2019: \$US5,405,890).

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:

- The consolidated entity's products continue to sell well at retail accounts as evidenced by the consolidated entity's growth in 2021 driven by aggressive new customer acquisition and top customers reordering at a 90%+ rate on a quarterly basis and is on track to scale revenues in 2022;
- In Q1 2022, the consolidated entity signed a new agreement with its fulfillment and warehouse centre that will lower its production costs, effective immediately, as well as implemented a 10% price increase. These two initiatives will improve gross margins and cash flow in 2022;
- In the first quarter of 2022, the consolidated entity hired a US based investment bank to explore various financing and M&A opportunities should the Board choose to go in this direction; and
- The company has the ability to raise additional capital without the requirement to obtain shareholder approval under its 15% general placement capacity under ASX listing rule 7.1, and also has an additional 10% capacity which was approved by shareholders on 30 July 2021. The consolidated entity has engaged a leading mid-market US based investment bank that specialises in food and beverage to help it explore strategic opportunities in the US.

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.

In the event that the consolidated entity is unsuccessful in implementing the above-stated initiatives, a material uncertainty exists, that may cast significant doubt on the consolidated entity's ability to continue as a going concern and its ability to recover assets and discharge liabilities in the normal course of business and at the amounts shown in the financial report.

Should the consolidated entity be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different from those stated in the financial statements.

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.

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 1. Significant accounting policies (continued)

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.

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 25.

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 2021 and the results of all subsidiaries for the year 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.

The consolidated entity operates the business of selling candies. The consolidated entity currently manages the B2B business line as part of the overall candy selling business, whereby no discrete financial information between the B2C and B2B lines is maintained other than the revenue generated. The Board being the chief operating decision maker monitors the financial performance and position of the group as a whole and not by the business line. To this end, the group has been assessed as one business segment during the year ended 31 December 2021.

Foreign currency translation

The financial statements are presented in US dollars, which is Candy Club Holdings Limited's presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into US 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 1. Significant accounting policies (continued)

Translation to presentation currency

The assets and liabilities of entities where the functional currency is not US dollars are translated into US dollars using the exchange rates at the reporting date. The revenues and expenses are translated into US 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 is recognised in other comprehensive income.

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 recognised as a refund liability.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the product is shipped to the customer. No element of financing is deemed present as the sales are generally made with terms ranging from customer pre-payment to credit terms of 30 to 60 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.

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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.

Note 1. Significant accounting policies (continued)

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.

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.

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 1. Significant accounting policies (continued)

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.

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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Note 1. Significant accounting policies (continued)

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year 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.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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.

Note 1. Significant accounting policies (continued)

The cost of equity-settled transactions is 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.

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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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 year, adjusted for bonus elements in ordinary shares issued during the financial year.

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.

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Note 1. Significant accounting policies (continued)

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 net 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 2021. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

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.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

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

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Note 3. Impact of COVID 19 pandemic

During the current financial year the COVID 19 pandemic had a significant impact on the global economy. In response to the pandemic, the US, state and local governments announced a series of measures aimed at preventing the spread of COVID-19 (“measures”), which had the subsequent effect of impacting the state of the US economy (i.e. impact on supply chain, customers, availability of finance, consumer confidence, etc).

- Enacting Candy Club’s stated business continuity plan of enabling all consolidated entity employees, including head office and sales staff, to work remotely, until further notice;
- To date, no business interruptions have occurred in either the consolidated entity’s warehousing and distribution center operations, located primarily in Indiana, nor in its supply chain of core product or packaging vendors, as we and our facility are classified as a food manufacturer and currently considered “essential critical business infrastructure”; given the fluidity of the situation this is subject to change in the future;
- There are segments of the consolidated entity’s business that have been negatively impacted by these events, such as sales to retail stores and hospitality outlets, and segments that have been positively impacted as a result of these measures, including e-commerce and grocery customers. While the consolidated entity’s revenue has increased since the beginning of the pandemic, the situation in the US remains fluid and it is still too early to tell how revenue, earnings and cash flow for FY2022 could be impacted by the measures required by COVID-19 should another significant outbreak occur; and
- The consolidated entity’s board of directors and management continually review and revise Candy Club’s 2022 operating plans, including operating expense management solutions and associated cashflow budget, to adapt to the impact of the ongoing COVID-19 crisis.

Management continues to monitor other possible impacts associated with COVID 19. Management also recognises that the situation associated with the management of COVID-19 continues to evolve on a daily basis and it is difficult to estimate with any degree of certainty the resulting impact (financial and operational) which this may have on Candy Club and its future results and financial position.

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.

The consolidated entity operates the business of selling candies. CODM manages the Business to Business (B2B) line as part of the overall candy selling business, whereby no discrete financial information between the Business to Customer (B2C) and B2B lines is maintained other than the revenue generated. The Board being the chief operating decision maker monitors the financial performance and position of the group as a whole and not by the business line. To this end, the group has been assessed as one business segment during the year ended 31 December 2021. Refer to note 5 for split of total revenue per business line.

Note 5. Revenue

	Consolidated	
	2021	2020
	\$US	\$US
Sales of goods	<u>16,540,956</u>	<u>8,673,772</u>

Candy Club Holdings Limited
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Note 5. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	
	2021	2020
	\$US	\$US
<i>Major revenue streams</i>		
Sale of goods - business to consumer	2,070,406	2,028,337
Sale of goods - business to business	14,470,550	6,645,435
	<u>16,540,956</u>	<u>8,673,772</u>
<i>Geographical regions</i>		
United States of America	<u>16,540,956</u>	<u>8,673,772</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time - being when shipped and ownership transfers	<u>16,540,956</u>	<u>8,673,772</u>

Note 6. Other income

	Consolidated	
	2021	2020
	\$US	\$US
Government COVID stimulus	-	13,812
PPP loan forgiven	-	288,622
Other income	-	302,434
	<u>-</u>	<u>302,434</u>

Note 7. Expenses

	Consolidated	
	2021	2020
	\$US	\$US
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	11,826	18,590
Right of use assets	135,823	104,325
Total depreciation	<u>147,649</u>	<u>122,915</u>
<i>Amortisation</i>		
Intangible assets	21,935	38,784
Total depreciation and amortisation	<u>169,584</u>	<u>161,699</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on bridging finance - from director related entities	99,223	236,041
Interest and finance charges paid/payable on lease liabilities	11,660	16,100
Interest and finance charges paid/payable on US loan facilities (inc share based payments)	1,285,198	350,697
Finance costs expensed	<u>1,396,081</u>	<u>602,838</u>

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Note 8. Income tax expense

	Consolidated	
	2021	2020
	\$US	\$US
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(7,921,955)	(4,535,042)
Tax at the statutory tax rate of 30%	(2,376,587)	(1,360,513)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax effect of different tax rates in US	564,575	277,717
US tax losses not recognised	1,778,941	973,313
US state taxes	(469,428)	(267,196)
Tax losses not recognised	285,927	310,155
Non deductible items	216,572	66,524
Income tax expense	<u>-</u>	<u>-</u>

	Consolidated	
	2021	2020
	\$US	\$US
<i>Australian tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	2,703,342	1,892,569
Potential tax benefit @ 30%	811,003	567,771

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.

US tax losses

The consolidated entity has total accumulated net operating tax losses of \$USD37,734,000 (2020: \$US31,689,000) which have not been recognised as the recovery of this benefit is uncertain. The tax losses are yet to be tested to check if they will be able to be utilised.

Note 9. Trade and other receivables

	Consolidated	
	2021	2020
	\$US	\$US
<i>Current assets</i>		
Trade receivables	1,877,984	435,397
Less: Allowance for expected credit losses	(245,352)	(111,000)
	<u>1,632,632</u>	<u>324,397</u>
Other receivables	126,188	115,421
BAS receivable	4,199	8,849
	<u>1,763,019</u>	<u>448,667</u>

Refer to note 19 for information on credit risk. No allowance for credit loss has been recognised as none of the balances are considered impaired.

Allowance for expected credit losses

The consolidated entity has recognised a loss of US\$205,000 (2020: \$US111,000) in profit or loss in respect of the expected credit losses for the year ended 31 December 2021.

Candy Club Holdings Limited
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Note 9. Trade and other receivables (continued)

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2021	2020	2021	2020	2021	2020
Consolidated	%	%	\$US	\$US	\$US	\$US
Not overdue	-	-	1,098,522	113,032	-	-
0 to 3 months overdue	16%	-	629,062	166,027	100,650	-
3 to 6 months overdue	90%	71%	33,630	156,338	30,267	111,000
Over 6 months overdue	98%	-	116,770	-	114,435	-
			<u>1,877,984</u>	<u>435,397</u>	<u>245,352</u>	<u>111,000</u>

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	2021	2020
	\$US	\$US
Opening balance	111,000	-
Additional provisions recognised	134,352	111,000
Closing balance	<u>245,352</u>	<u>111,000</u>

Note 10. Inventories

	Consolidated	
	2021	2020
	\$US	\$US
<i>Current assets</i>		
Stock on hand - at cost	7,244,106	3,946,951
Less: Provision for impairment	(149,965)	(392,447)
	<u>7,094,141</u>	<u>3,554,504</u>

The consolidated entity's inventory has been pledged as security for borrowings. Refer to note 14.

Note 11. Right-of-use assets

	Consolidated	
	2021	2020
	\$US	\$US
<i>Non-current assets</i>		
Land and buildings - right-of-use	275,806	275,806
Less: Accumulated depreciation	(161,886)	(89,937)
	<u>113,920</u>	<u>185,869</u>
Plant and equipment - right-of-use	827,231	161,873
Less: Accumulated depreciation	(96,249)	(32,375)
	<u>730,982</u>	<u>129,498</u>
	<u>844,902</u>	<u>315,367</u>

Candy Club Holdings Limited
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Note 11. Right-of-use assets (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and equipment \$US	Land and buildings \$US	Total \$US
Balance at 1 January 2020	161,873	257,819	419,692
Depreciation expense	<u>(32,375)</u>	<u>(71,950)</u>	<u>(104,325)</u>
Balance at 31 December 2020	129,498	185,869	315,367
Additions	665,358	-	665,358
Depreciation expense	<u>(63,874)</u>	<u>(71,949)</u>	<u>(135,823)</u>
Balance at 31 December 2021	<u><u>730,982</u></u>	<u><u>113,920</u></u>	<u><u>844,902</u></u>

The consolidated entity's assets have been pledged as security for the borrowings, refer to note 14.

Note 12. Other

	Consolidated	
	2021	2020
	\$US	\$US
<i>Current assets</i>		
Prepayments	<u>377,376</u>	<u>294,360</u>
<i>Non-current assets</i>		
Security deposits	28,750	29,500
Other deposits	<u>18,355</u>	<u>-</u>
	<u><u>47,105</u></u>	<u><u>29,500</u></u>

Note 13. Trade and other payables

	Consolidated	
	2021	2020
	\$US	\$US
<i>Current liabilities</i>		
Trade payables	1,705,185	1,351,451
Other payables	<u>469,608</u>	<u>487,338</u>
	<u><u>2,174,793</u></u>	<u><u>1,838,789</u></u>

Refer to note 19 for further information on financial instruments.

All trade and other payables are unsecured liabilities and recognised at amortised cost.

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Note 14. Borrowings

	Consolidated	
	2021	2020
	\$US	\$US
<i>Current liabilities</i>		
Bridging finance - from entities related to current and former directors	806,114	1,385,155
Loan facility	<u>1,256,178</u>	<u>-</u>
	<u><u>2,062,292</u></u>	<u><u>1,385,155</u></u>
<i>Non-current liabilities</i>		
Loan facility	<u>5,280,634</u>	<u>1,412,059</u>

Refer to note 19 for further information on financial instruments.

The bridging finance includes a balance with a face value of \$US650,000 with interest being accrued at 1% per month. These loans may be converted into fully paid ordinary shares at the discretion of the lenders.

The consolidated entity executed a debt facility in April 2021 for up to US \$7.5m of which all US\$7.5 million has been drawn down, with the most recent draw of US\$2.5m on November 12, 2021. Under the debt facility, there will be Interest only (12%) payments for twelve (12) months followed by thirty (30) months of principal and interest repayments. The debt facility ranks as first priority lien and is secured by all of Candy Club Holding Inc's assets. The debt facility is subject to certain financial and reporting covenants. There have been no events of defaults on the debt facility during the year ended 31 December 2021.

Total direct borrowing costs of US\$1,229,165 have been capitalized and offset against the debt balance. At 31 December 2021, the unamortized borrowing costs offsetting the debt balance totalled US\$963,188.

Note 15. Lease liabilities

	Consolidated	
	2021	2020
	\$US	\$US
<i>Current liabilities</i>		
Lease liability	<u>592,804</u>	<u>80,400</u>
<i>Non-current liabilities</i>		
Lease liability	<u>129,826</u>	<u>117,695</u>

Refer to note 19 for further information on financial instruments.

Note 16. Issued capital

	Consolidated			
	2021	2020	2021	2020
	Shares	Shares	\$US	\$US
Ordinary shares - fully paid	<u>365,465,931</u>	<u>288,552,735</u>	<u>32,495,417</u>	<u>21,835,441</u>

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Note 16. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$US
Balance	1 January 2020	174,911,079		15,344,101
Shares issued to settle trade payables	17 January 2020	412,500	\$US0.0450	18,487
Shares issued to KMP and employees as part of remuneration	17 January 2020	4,104,478	\$US0.0540	220,000
Issue of shares	17 January 2020	18,750,000	\$US0.0450	840,328
Shares issued on conversion of debt and accrued interest	17 January 2020	31,801,055	\$US0.0410	1,302,724
Issue of shares	17 April 2020	6,175,000	\$US0.0150	94,255
Issue of shares	24 July 2020	19,646,310	\$US0.0886	1,740,172
Issue of shares	13 August 2020	1,250,000	\$US0.0253	31,656
Shares issued to KMP as part of remuneration	13 August 2020	1,581,780	\$US0.0499	78,892
Issue of shares	1 December 2020	29,166,667	\$US0.0884	2,578,800
Exercise of options	2 December 2020	753,866	\$US0.0028	2,139
Cost of capital raising		-	\$US0.0000	(416,113)
Balance	31 December 2020	288,552,735		21,835,441
Conversion of options	9 February 2021	2,614	\$US0.0030	8
Shares issued upon conversion of debt	9 February 2021	7,102,088	\$US0.0966	685,972
Issue of shares	9 February 2021	12,500,001	\$US0.0927	1,159,050
Issue of shares	20 April 2021	34,147,727	\$US0.1702	5,813,172
Shares to be issued to settle fees in relation to US debt	13 August 2021	8,942,168	\$US0.1278	1,142,862
Issue of shares	13 August 2021	7,785,865	\$US0.1614	1,256,747
Issue of shares	24 August 2021	6,432,733	\$US0.1591	1,023,763
Cost of capital raising		-	\$US0.0000	(421,598)
Balance	31 December 2021	<u>365,465,931</u>		<u>32,495,417</u>

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.

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Note 17. Reserves

	Consolidated	
	2021	2020
	\$US	\$US
Foreign currency reserve	(452,673)	(310,853)
Share-based payments reserve	4,422,330	3,638,968
Commonly controlled reserve	<u>(12,388,977)</u>	<u>(12,388,977)</u>
	<u>(8,419,320)</u>	<u>(9,060,862)</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to US 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.

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.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency \$US	Share based payments \$US	Commonly controlled \$US	Total \$US
Balance at 1 January 2020	116,452	2,146,211	(12,388,977)	(10,126,314)
Foreign currency translation	(427,305)	-	-	(427,305)
Share based payments	-	1,492,757	-	1,492,757
	<u>(310,853)</u>	<u>3,638,968</u>	<u>(12,388,977)</u>	<u>(9,060,862)</u>
Balance at 31 December 2020	(310,853)	3,638,968	(12,388,977)	(9,060,862)
Foreign currency translation	(141,820)	-	-	(141,820)
Share based payments	-	783,362	-	783,362
	<u>(452,673)</u>	<u>4,422,330</u>	<u>(12,388,977)</u>	<u>(8,419,320)</u>
Balance at 31 December 2021	<u>(452,673)</u>	<u>4,422,330</u>	<u>(12,388,977)</u>	<u>(8,419,320)</u>

Note 18. Dividends

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

Note 19. 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.

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Note 19. Financial instruments (continued)

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 for further details.

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 - 2021	Weighted average interest rate %	1 year or less \$US	Between 1 and 2 years \$US	Between 2 and 5 years \$US	Over 5 years \$US	Remaining contractual maturities \$US
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,705,185	-	-	-	1,705,185
Other payables	-	469,608	-	-	-	469,608
<i>Interest-bearing - variable</i>						
Lease liability	7.00%	84,769	50,735	-	-	135,504
Lease liability	10.00%	547,018	128,457	-	-	675,475
Short term loans from current and former directors	12.00%	806,144	-	-	-	806,144
Loan facilities	12.00%	2,103,191	3,447,959	3,064,856	-	8,616,006
Total non-derivatives		5,715,915	3,627,151	3,064,856	-	12,407,922

Consolidated - 2020	Weighted average interest rate %	1 year or less \$US	Between 1 and 2 years \$US	Between 2 and 5 years \$US	Over 5 years \$US	Remaining contractual maturities \$US
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,351,451	-	-	-	1,351,451
Other payables	-	487,338	-	-	-	487,338
<i>Interest-bearing - fixed rate</i>						
Lease liability	7.00%	80,400	80,400	37,295	-	198,095
Loan facility	19.00%	-	1,412,059	-	-	1,412,059
Short term loans from current and former directors	12.00%	1,385,155	-	-	-	1,385,155
Total non-derivatives		3,304,344	1,492,459	37,295	-	4,834,098

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

Measurement of financial assets

The totals for each category of financial instruments, measured in accordance with AASB 9: Financial Instruments as detailed in the accounting policies to these financial statements, are as follows:

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 19. Financial instruments (continued)

	Consolidated	
	2021	2020
	\$US	\$US
Financial assets		
Financial assets measured at amortised cost		
Cash and cash equivalents	5,203,752	2,018,492
Trade and other receivables	1,758,820	448,667
	<u>6,962,572</u>	<u>2,467,159</u>
Total financial assets	<u>6,962,572</u>	<u>2,467,159</u>
	Consolidated	
	2021	2020
	\$US	\$US
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	2,174,793	1,838,789
Borrowings	7,342,926	2,797,214
Lease liabilities	722,630	198,095
	<u>10,240,349</u>	<u>4,834,098</u>
Total financial liabilities	<u>10,240,349</u>	<u>4,834,098</u>

None of the consolidated entity's financial instruments are recorded at fair value subsequent to initial recognition.

Note 20. 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	
	2021	2020
	\$US	\$US
Short-term employee benefits	950,453	693,914
Post-employment benefits	4,029	3,608
Share-based payments	633,524	815,267
	<u>1,588,006</u>	<u>1,512,789</u>

Note 21. Remuneration of auditors

During the financial year 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	
	2021	2020
	\$US	\$US
<i>Audit services - HLB Mann Judd (Vic) Partnership</i>		
Audit or review of the financial statements	<u>32,761</u>	<u>26,012</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	<u>70,000</u>	<u>67,000</u>

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 22. Contingent liabilities/assets

The consolidated entity has no contingent assets and liabilities at the end of the current and prior financial years.

Note 23. Commitments

The consolidated entity has no commitments at the end of the current and prior financial years.

Note 24. Related party transactions

Parent entity

Candy Club Holdings Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 26.

Key management personnel

Disclosures relating to key management personnel are set out in note 20 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2021	2020
	\$US	\$US
Other expenses:		
Finances costs to key management personnel and their related entities.	99,223	236,041

Receivable from and payable to related parties

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

	Consolidated	
	2021	2020
	\$US	\$US
Current payables:		
Other payables to key management personnel	124,126	81,564
Bonus accrued to key management personnel	112,000	112,500

Loans to/from related parties

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

	Consolidated	
	2021	2020
	\$US	\$US
Current borrowings:		
Loans from key management personnel and their related entities *	802,962	1,381,810

* The bridging finance includes a loans with face value of \$US650,000 with interest being accrued at 1% per month. These loans may be converted into fully paid ordinary shares at the discretion of the lender.

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 25. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2021	2020
	\$US	\$US
Loss after income tax	<u>(9,404,084)</u>	<u>(6,868,315)</u>
Total comprehensive loss	<u>(9,404,084)</u>	<u>(6,868,315)</u>

Statement of financial position

	Parent	
	2021	2020
	\$US	\$US
Total current assets	<u>1,310,830</u>	<u>107,490</u>
Total assets	<u>1,310,830</u>	<u>107,490</u>
Total current liabilities	<u>981,244</u>	<u>1,535,483</u>
Total liabilities	<u>981,244</u>	<u>1,535,483</u>
Equity		
Issued capital	32,495,417	21,835,441
Foreign currency reserve	(617,497)	(497,467)
Share-based payments reserve	3,060,522	2,438,805
Accumulated losses	<u>(34,608,856)</u>	<u>(25,204,772)</u>
Total equity/(deficiency)	<u><u>329,586</u></u>	<u><u>(1,427,993)</u></u>

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 2021 and 31 December 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 31 December 2021 and 31 December 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 31 December 2021 and 31 December 2020.

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.

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 26. 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	
		2021 %	2020 %
Candy Club Holdings Inc.	USA	100.00%	100.00%
Candy Club LLC	USA	100.00%	100.00%
Candy Club Retail 1 LLC	USA	100.00%	-
Candy Club Retail 2 LLC	USA	100.00%	-
Candy Club Retail 3 LLC	USA	100.00%	-
Candy Club Retail 4 LLC	USA	100.00%	-
Candy Club Retail 5 LLC	USA	100.00%	-
Candy Club Retail 6 LLC	USA	100.00%	-
Candy Club Retail 7 LLC	USA	100.00%	-

Note 27. Events after the reporting period

On 12 January 2022, a total of 74,124 options over ordinary shares lapsed unexercised.

Also on 12 January 2022, the company issued 105,000 unlisted options under the employee incentive scheme. The options have an exercise price of AU\$13.5 cents and expire on 9 June 2025.

On 9 March 2022, 2,000,000 performance rights held by Keith Cohn and another former director were converted into ordinary shares following satisfaction of performance conditions. In addition, on the same date 2,000,000 performance rights lapsed due to conditions not being satisfied.

Since 31 December 2021, the consolidated entity has engaged a leading mid-market US based investment bank that specialises in food and beverage to help it explore strategic opportunities in the US.

No other matter or circumstance has arisen since 31 December 2021 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.

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 28. Reconciliation of loss after income tax to net cash (used) in operating activities

	Consolidated	
	2021	2020
	\$US	\$US
Loss after income tax expense for the year	(7,921,955)	(4,535,042)
Adjustments for:		
Depreciation and amortisation	169,584	161,699
Share-based payments	783,362	734,340
Foreign exchange differences	51,283	-
Settlement of operating liabilities through issue of shares	-	314,354
Non-cash finance costs	438,837	146,131
PPP loan forgiven	-	(288,622)
Provision for expected credit losses	205,000	111,000
Movement in provision for inventory impairment	319,769	(253,552)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,519,352)	(311,232)
Increase in inventories	(3,859,406)	(978,236)
Increase in other operating assets	(100,621)	(150,147)
Increase/(decrease) in trade and other payables	336,004	(306,583)
Decrease in other provisions	-	(50,000)
Net cash (used) in operating activities	<u>(11,097,495)</u>	<u>(5,405,890)</u>

Note 29. Non-cash investing and financing activities

During the year, the company issued 16,044,256 fully paid ordinary shares (2020: 31,801,055) settling liabilities valued at \$1,828,834 (2020: US\$1,302,724).

Note 30. Changes in liabilities arising from financing activities

	Leases	Loan Facility	Bridging loans	Total
Consolidated	\$US	\$US	\$US	\$US
Balance at 1 January 2020	372,808	428,497	1,220,998	2,022,303
Net cash from/(used in) financing activities	(174,713)	1,439,125	1,250,000	2,514,412
PPP loan forgiven	-	(288,622)	-	(288,622)
Other changes (conversions and accruals of interest)	-	(166,941)	(1,085,843)	(1,252,784)
Balance at 31 December 2020	198,095	1,412,059	1,385,155	2,995,309
Net cash from/(used in) financing activities	(140,823)	5,921,000	-	5,780,177
Additions	665,358	-	-	665,358
Other changes (foreign currency, conversions and non cash interest)	-	(796,247)	(579,041)	(1,375,288)
Balance at 31 December 2021	<u>722,630</u>	<u>6,536,812</u>	<u>806,114</u>	<u>8,065,556</u>

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 31. Earnings per share

	Consolidated	
	2021	2020
	\$US	\$US
Loss after income tax attributable to the owners of Candy Club Holdings Limited	<u>(7,921,955)</u>	<u>(4,535,042)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>338,555,341</u>	<u>243,896,364</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>338,555,341</u>	<u>243,896,364</u>
	Cents	Cents
Basic earnings per share	(2.34)	(1.86)
Diluted earnings per share	(2.34)	(1.86)

Note 32. Share-based payments

Total share based payments of \$US783,362 (2020: \$US1,492,757) have been recognised in relation to the options issued to employees, directors and contractors.

The terms of options as share based payments are as follows:

2021		Balance at the start of the year	Lapsed	Granted	Exercised	Balance at the end of the year
01/01/2015	01/01/2015	<u>26,887,336</u>	-	16,432,000	-	<u>43,319,336</u>
		<u>26,887,336</u>	-	<u>16,432,000</u>	-	<u>43,319,336</u>
Weighted average exercise price		\$US0.1042	\$US0.0000	\$US0.1487	\$US0.0000	\$US0.1211
2020		Balance at the start of the year	Lapsed	Granted	Exercised	Balance at the end of the year
01/01/2015	01/01/2015	<u>5,095,449</u>	(1,363,061)	23,908,814	(753,866)	<u>26,887,336</u>
		<u>5,095,449</u>	(1,363,061)	<u>23,908,814</u>	(753,866)	<u>26,887,336</u>
Weighted average exercise price		\$US0.2342	\$US1.1700	\$US0.1038	\$US0.0290	\$US0.1042

The weighted average remaining contractual life of options outstanding at the end of the financial period was 2.45 years (2020: 2.83 years).

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

Candy Club Holdings Limited
Notes to the consolidated financial statements
31 December 2021

Note 32. Share-based payments (continued)

For the options granted during the current financial year, 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
12/01/2021	12/01/2025	\$US0.1010	\$US0.0943	82.880%	-	0.460%	\$US0.060
04/03/2021	04/03/2025	\$US0.1540	\$US0.1451	82.880%	-	0.460%	\$US0.091
06/05/2021	06/05/2025	\$US0.0000	\$US0.1234	82.880%	-	0.460%	\$US0.080
09/06/2021	09/06/2025	\$US0.0000	\$US0.0980	82.880%	-	0.460%	\$US0.062
30/07/2021	30/07/2025	\$US0.1256	\$US0.1774	93.800%	-	0.343%	\$US0.075
10/11/2021	10/11/2024	\$US0.0850	\$US0.0907	80.000%	-	0.750%	\$US0.048

Candy Club Holdings Limited
Directors' declaration
31 December 2021

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 2021 and of its performance for the financial year 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

30 March 2022

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 2021, 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 year 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 2021 and of its financial performance for the year 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 \$7,921,955 (2020: \$4,535,042) during the year ended 31 December 2021 and incurred net cash outflows in operations of \$11,097,495 (2020: \$5,405,890). 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.

hlb.com.au

HLB Mann Judd (VIC Partnership) ABN 20 696 861 713

Level 9, 575 Bourke Street, Melbourne VIC 3000 | GPO Box 2850, Melbourne VIC 3001

T: +61 (0) 3 9606 3888 F: +61 (0) 3 9606 3800 E: mailbox@hlbvic.com.au

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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
<p>Share-based payments Refer to note 16 (Issued capital), 17 (Reserves) and 32 (Share-based payments).</p> <p>The Group pays its employees, directors and suppliers via the issue of ordinary shares and options over shares.</p> <p>During the year, there were several share-based payments made to employees, directors and lenders.</p> <p>The valuation and accounting for share-based payments is complex and is subject to management's estimates and judgement.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Verifying the key terms and conditions of equity settled share-based payments in respect of ordinary shares and options over shares to the relevant agreements, for services rendered by employees and directors as well as the loan agreements with lenders. • Assessing and testing the fair value calculation of share-based payments by checking the accuracy of the inputs to source documents and performing a cross check against our own findings. • Testing the accuracy of the share-based payments amortisation over the vesting periods (where applicable) and the recording of expenses in the statement of profit or loss and movement in the share-based payment reserve. • Checking the adopted disclosures for compliance with the requirements of <i>AASB 2 Share-based Payment</i>.

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 year ended 31 December 2021, 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.
- 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 7 to 12 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Candy Club Holdings Limited for the year ended 31 December 2021 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
Chartered Accountants

Melbourne
30 March 2022



Jude Lau
Partner

Candy Club Holdings Limited
Shareholder information
31 December 2021

The shareholder information set out below was applicable as at 16 March 2022.

Distribution of equitable securities

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

	Ordinary shares		Options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	15	-	2	-
1,001 to 5,000	49	0.05	12	0.06
5,001 to 10,000	54	0.12	8	0.09
10,001 to 100,000	284	3.68	38	2.64
100,001 and over	208	96.15	58	97.21
	<u>610</u>	<u>100.00</u>	<u>118</u>	<u>100.00</u>
Holding less than a marketable parcel	<u>50</u>	<u>0.03</u>	<u>-</u>	<u>-</u>

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
MUTUAL TRUST PTY LTD	103,253,559	28.10
CITICORP NOMINEES PTY LIMITED	55,485,926	15.10
10 BOLIVIANOS PTY LTD	11,616,153	3.16
VENTURE LENDING & LEASING IX LLC	8,942,168	2.43
BNP PARIBAS NOMINEES PTY LTD (IB AU NOMS RETAILCLIENT DRP)	8,725,901	2.37
CHI KAN TANG	8,080,500	2.20
SOPRIS CREEK PTY LTD	7,750,000	2.11
GINGA PTY LTD (TG KLINGER S/F A/C)	7,164,290	1.95
BEDWELL PTY LTD (BEDWELL DISCRETIONARY A/C)	5,506,509	1.50
KEC VENTURES II LP	5,322,351	1.45
ATFR PTY LTD (RH SUPER FUND A/C)	4,000,000	1.09
GIOVANNI NOMINEES PTY LTD (GIOVANNI FAMILY FUND A/C)	4,000,000	1.09
FORDHOLM CONSULTANTS PTY LTD (DIANA BOEHME SUPER FUND A/C)	4,000,000	1.09
UBS NOMINEES PTY LTD	3,764,852	1.02
BORRMAN HOLDINGS PTY LTD THE BROEREN FAMILY A/C)	3,690,958	1.00
SKYMAKER PTY LTD	3,500,000	0.95
T G F HOLDINGS (QLD) PTY LTD (T FORD SUPERANNUATION A/C)	3,478,834	0.95
PKT SPRINGBROOK PTY LTD (SPRINGBROOK FAMILY A/C)	3,340,340	0.91
MR WILLIAM NEIL STEWART COATS	3,250,379	0.88
MR ANDREW BAINES CLARK	3,138,130	0.85
	<u>258,010,850</u>	<u>70.20</u>

Candy Club Holdings Limited
Shareholder information
31 December 2021

	Options over ordinary shares	
	Number held	% of total options issued
MUTUAL TRUST PTY LTD	25,161,506	32.49
CITICORP NOMINEES PTY LIMITED	11,214,711	14.48
10 BOLIVIANOS PTY LTD	3,853,881	4.98
PKT SPRINGBROOK PTY LTD (SPRINGBROOK FAMILY A/C)	3,041,336	3.93
BUMBLETON PTY LTD (WILLIAM COATS S/F A/C)	2,745,982	3.55
MR WILLIAM NEIL STEWART COATS	2,295,365	2.96
MR DEAN RODNEY RYAN & MRS JULIA LEONIE RYAN (DEAN RYAN SUPER A/C)	1,658,503	2.14
GRANET SUPERANNUATION AND INVESTMENT SERVICES PL (GRANET SUPER FUND A/C)	1,450,300	1.87
MR GRAHAM JOHN WALKER	1,419,800	1.83
ROUSE EQUITIES PTY LTD (ROUSE INVESTMENT A/C)	1,400,000	1.81
BEDWELL PTY LTD (BEDWELL DISCRETIONARY A/C)	1,250,000	1.61
MR ANDREW BAINES CLARK	1,250,000	1.61
T G F HOLDINGS (QLD) PTY LTD (T FORD SUPERANNUATION A/C)	1,176,496	1.52
JAG HILFORD SUPER PTY LTD (JAG HILFORD SUPER FUND A/C)	1,025,000	1.32
BLUE LAKE PARTNERS PTY LTD	937,500	1.21
CERDIK	897,434	1.16
AUSITANO HOLDINGS PTY LTD	848,598	1.10
RIADY TJANDRA	768,775	0.99
MRS ANGELA CATHERINE ROUSE & MR EDMUND DAVID GORDON ROUSE (DAVID ROUSE SUPERANNUAT A/C)	650,000	0.84
TOOTING BEC PTY LTD (ANTHONY SUPERFUND A/C)	600,000	0.77
	<u>63,645,187</u>	<u>82.17</u>

Unquoted equity securities

In addition, the company has 650,000 convertible notes held by 2 holders.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
JAMES BAILLIEU AND ASSOCIATES	95,597,309	26.02
CHI KAN TANG	52,372,566	14.25

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.