

Top Shelf International Holdings Ltd

Formerly Top Shelf International Holdings Pty Ltd

ABN 22 164 175 535

Annual Report - 30 June 2019

Top Shelf International Holdings Ltd

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30 June 2019

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Top Shelf International Holdings Ltd
Directors' report
30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Top Shelf International Holdings Ltd (formerly Top Shelf International Pty Ltd), referred to hereafter as the 'Company' or 'parent entity' and the entities it controlled at the end of, or during, the year ended 30 June 2019.

In October 2019, the Company changed from a proprietary company, limited by shares to a public company, limited by shares and changed its name from Top Shelf International Holdings Pty Ltd to Top Shelf International Holdings Ltd. This change occurred after the 2018 and 2019 financial years in which the company was not a reporting entity.

Directors

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

Adem Karafili - Chair
Drew Fairchild – Managing Director
Peter Cudlipp
Bruce Peterson (resigned effective 23 July 2020)
Ken Poutakidis (appointed effective 21 May 2020)
Jason Redfern (resigned effective 20 June 2020)
Christopher Malcolm (resigned effective 18 September 2019)
Paul Baggio (resigned effective 22 August 2019)
Robert Kennedy (resigned effective 22 August 2019)

Principal activities

During the financial year the principal continuing activities of the Group consisted of being a producer and marketer of NED high-quality Australian whisky-based spiritous beverages and the provision of co-packing services to third party beverage manufacturers.

Commencement of co-packing for third parties whilst concurrently undertaking production of whisky wash and distillation of spirit provided affirmation of the Group's business model.

The Group continued to sell all of its available production whilst at the same time laying down increasing volumes of product for maturation over the planned two-year cycle.

Work commenced on the development of the Group's planned Australian vodka product range.

Development of the Group's purpose built maturation facility at Somerton advanced with commissioning completed in quarter 3 in the financial year.

Dividends

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

Review of operations

The loss for the Group after providing for income tax amounted to \$2,815,000 (30 June 2018: \$1,679,000).

Highlights for the financial year to 30 June 2019 include:

- Revenue growth 222% 2018 to 2019;
- Earnings before income, tax, depreciation and amortisation ('EBITDA') 32.2% down 2018 to 2019;
- Installation of equipment at the manufacturing and production facility at Campbellfield, Victoria, including brewery, distillery, maturation facilities, packaging lines and supporting infrastructure ready for commissioning;
- Commissioning of the canning line;
- First production run of NED branded RTD cans January 2019;
- Canning for third party customers;
- Further refinement of whisky mash bill, distillation process and maturation methodologies for NED whisky;
- Development and execution of research and development initiatives; and
- Commencement of planning and development for an Australian Agave spirit with the acquisition and partial harvesting of Australia's only substantive Agave crop at Ayr, Queensland.

In summary, another year of expanding NED ready to drink sales, continuing installation of a state-of-art vertically integrated manufacturing capability to produce branded alcoholic beverages at scale and research and development. During the year significant milestones were reached in the execution of the Group capital and value creation strategies.

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A reconciliation of non-International Financial Reporting Standards ('IFRS') measures compared with the reported results in the financial statements on page 5 is set out below. The following non-IFRS measures have not been audited but have been extracted from the audited financial statements.

The following table summarises key reconciling items between statutory loss after tax attributable to the Group and EBITDA.

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Loss for the year	(2,815)	(1,679)
Income tax benefit	(141)	(339)
Interest expense	861	441
Interest income	(3)	-
	<hr/>	<hr/>
Earnings before interest and tax ('EBIT')	(2,098)	(1,577)
Depreciation and amortisation	283	204
	<hr/>	<hr/>
Earnings before interest, tax, depreciation and amortisation ('EBITDA')*	(1,815)	(1,373)

* EBITDA is a financial measure which is not prescribed by Australian Accounting Standards ('AAS'). The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group.

Sales and Marketing

The NED brand strategy continues to be a focal point of the Group with plans well advanced for the release of the Group's marquee brand 700ml bottle of whisky.

The following four product channels are available under the RTD line:

- NED White;
- NED Dry;
- NED Black; and
- NED Blue.

Working Capital and Statement of Financial Position

The Group finished the year with a negative working capital position with the focus being on capital expansion. As disclosed in the statement of financial position, the Group had \$10.3 million in assets deployed during the financial year, funded through a senior debt facility and increase in equity.

During the financial year the Group borrowed from related parties in order to finalise the canning line and begin construction of the bottling line.

Significant changes in the state of affairs

National Boulevard Manufacturing facility was opened for business.

Installation of the canning line at National Boulevard Capital was completed in anticipation of commissioning and commencement of production for the Group's products and on a contracted basis for third parties

Production and manufacture of NED ready to drink cans was commenced at the Campbellfield facility following completion of commissioning of the canning line 1 January 2019.

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

Matters subsequent to the end of the financial year

In October 2019, the Company changed from a proprietary company, limited by shares to a public company, limited by shares and changed its name from Top Shelf International Holdings Pty Ltd to Top Shelf International Holdings Ltd.

The existence of the infectious disease COVID-19 ('Coronavirus') has become widely known subsequent to the end of the financial year, and rapidly spread throughout the world, including Australia. The Group considers this to be a non-adjusting event. Since the reporting date this has continued to cause increasing disruption to populations, to business and economic activity. The Group were able to remain open and continued to trade through this period.

Business trading performance has been relatively stable through the most recent period (March – September 2020) during which the COVID-19 pandemic has impacted Top Shelf's primary operating market of Australia. Top Shelf's contract packaging services were negatively impacted during the fourth quarter of FY20, however, the demand for the contract packaging services and throughput of the associated bottling and canning production lines in the first quarter of FY21 has been above pre-COVID levels.

In the short-term (remainder of 2020), the ongoing restrictions of social gatherings (such as get togethers, parties and sporting events) and on-premise events, are likely to have a negative impact, particularly in the state of Victoria. Conversely, with more people restricted from attending public premises and events, there has been an increase in at-home and locally made beverage consumption. As this situation continues to develop, we will continue to assess any potential impact this may have on the Group.

The Group is in the process of preparing for an initial public offering (Offer) of fully paid ordinary shares in Top Shelf, with plans to have the Offer completed before the end of the 2020 calendar year.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

The Group is subject to a significant environmental regulation under State law, primarily a waste treatment agreement with the Yarra Valley Water pursuant to which the Group can only dispose of waste water with a pH value of between 6-10 and temperature less than 40 degrees Celsius. The Group are in compliance with the regulations.

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.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young Australia during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court 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.

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Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

This report is made in accordance with a resolution of directors.

On behalf of the directors



Drew Fairchild
Founder and Managing Director

Adem Karafili
Chair

19 October 2020
Melbourne

Top Shelf International Holdings Ltd
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

		Consolidated	
	Note	30 Jun 2019	30 Jun 2018
		\$'000	\$'000
Revenue from contracts with customers	6	2,163	671
Cost of sales	8	<u>(1,565)</u>	<u>(790)</u>
Gross profit		<u>598</u>	<u>(119)</u>
Other income	7	299	3
Interest income		3	-
Expenses			
Sales and marketing expense		(231)	(148)
Distribution expense		(113)	(36)
Administration and operating expense	9	(1,017)	(366)
Employee benefits expense	9	(1,182)	(485)
Depreciation and amortisation expense	9	(283)	(204)
Finance costs	9	<u>(1,030)</u>	<u>(663)</u>
Loss before income tax benefit		(2,956)	(2,018)
Income tax benefit	10	<u>141</u>	<u>339</u>
Loss after income tax benefit for the year attributable to the owners of Top Shelf International Holdings Ltd		(2,815)	(1,679)
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to the owners of Top Shelf International Holdings Ltd		<u>(2,815)</u>	<u>(1,679)</u>

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

Top Shelf International Holdings Ltd
Consolidated statement of financial position
As at 30 June 2019

	Note	30 Jun 2019 \$'000	Consolidated 30 Jun 2018 \$'000	1 Jul 2017 \$'000
Assets				
Current assets				
Cash and cash equivalents	11	94	1,264	5
Trade and other receivables	12	1,238	1,733	44
Inventories	13	571	147	220
Other assets	14	706	17	5
Total current assets		<u>2,609</u>	<u>3,161</u>	<u>274</u>
Non-current assets				
Property, plant and equipment	15	17,617	8,466	202
Right-of-use assets	16	2,600	1,743	-
Intangible assets	17	970	503	372
Biological assets		44	-	-
Deferred tax assets	10	683	432	-
Total non-current assets		<u>21,914</u>	<u>11,144</u>	<u>574</u>
Total assets		<u>24,523</u>	<u>14,305</u>	<u>848</u>
Liabilities				
Current liabilities				
Trade and other payables	18	2,009	991	143
Borrowings	19	2,252	275	1,040
Lease liabilities	20	346	308	-
Employee benefits		74	36	-
Total current liabilities		<u>4,681</u>	<u>1,610</u>	<u>1,183</u>
Non-current liabilities				
Borrowings	19	5,893	1,350	-
Lease liabilities	20	2,238	1,331	-
Employee benefits		2	-	-
Provisions	21	279	218	-
Total non-current liabilities		<u>8,412</u>	<u>2,899</u>	<u>-</u>
Total liabilities		<u>13,093</u>	<u>4,509</u>	<u>1,183</u>
Net assets/(liabilities)		<u>11,430</u>	<u>9,796</u>	<u>(335)</u>
Equity				
Issued capital	22	13,733	11,964	201
Other contributed equity	23	2,221	-	155
Reserves	27	661	202	-
Accumulated losses		<u>(5,185)</u>	<u>(2,370)</u>	<u>(691)</u>
Total equity/(deficiency)		<u>11,430</u>	<u>9,796</u>	<u>(335)</u>

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

Top Shelf International Holdings Ltd
Consolidated statement of changes in equity
For the year ended 30 June 2019

Consolidated	Issued Capital \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2017	201	155	-	(691)	(335)
Loss after income tax benefit for the year	-	-	-	(1,679)	(1,679)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(1,679)	(1,679)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity (Note 24)	12,005	(155)	-	-	11,850
Share issue transaction costs, net of tax (Note 24)	(242)	-	-	-	(242)
Share based payments (Note 27)	-	-	202	-	202
Balance at 30 June 2018	11,964	-	202	(2,370)	9,796

Consolidated	Issued Capital \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2018	11,964	-	202	(2,370)	9,796
Loss after income tax benefit for the year	-	-	-	(2,815)	(2,815)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(2,815)	(2,815)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity (Note 24)	2,056	-	-	-	2,056
Share issue transaction costs, net of tax (Note 24)	(287)	-	-	-	(287)
Other contributed equity (Note 25)	-	2,221	-	-	2,221
Share based payments (Note 27)	-	-	459	-	459
Balance at 30 June 2019	13,733	2,221	661	(5,185)	11,430

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

Top Shelf International Holdings Ltd
Consolidated statement of cash flows
For the year ended 30 June 2019

		Consolidated	
	Note	30 Jun 2019	30 Jun 2018
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,860	525
Payments to suppliers and employees (inclusive of GST)		(3,451)	(1,411)
		(1,591)	(886)
Interest received		3	-
Research and development income		181	-
Other income		82	3
Net cash used in operating activities	32	(1,325)	(883)
Cash flows from investing activities			
Payments for property, plant and equipment		(10,217)	(8,282)
Payments for intangibles		(750)	(198)
Payments for biological assets		(44)	-
Receipts from research and development grants		1,122	-
Net cash used in investing activities		(9,889)	(8,480)
Cash flows from financing activities			
Proceeds from issue of shares	22	2,056	11,042
Share issue transaction costs	22	(396)	(336)
Proceeds from contributed equity	23	2,221	-
Proceeds from unpaid capital	12	808	-
Proceeds from borrowings	33	4,046	1,350
Proceeds from loans with related parties	33	2,574	-
Interest and finance costs on borrowings	9	(729)	(508)
Interest on lease liabilities	9	(300)	(155)
Repayment of lease liabilities	33	(136)	(6)
Repayment of borrowings	33	(100)	-
Repayment of loans with related parties	33	-	(765)
Net cash from financing activities		10,044	10,622
Net increase/(decrease) in cash and cash equivalents		(1,170)	1,259
Cash and cash equivalents at the beginning of the financial year		1,264	5
Cash and cash equivalents at the end of the financial year	11	94	1,264

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

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
30 June 2019

Note 2. Significant accounting policies (continued)

Note 1. General information

The financial statements cover Top Shelf International Holdings Ltd (formerly Top Shelf International Pty Ltd) as a Group consisting of Top Shelf International Holdings Ltd (formerly Top Shelf International Pty Ltd) ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (referred to hereafter as the 'Group'). The financial statements are presented in Australian dollars, which is Top Shelf International Holdings Ltd's functional and presentation currency.

In October 2019, the Company changed from a proprietary company, limited by shares to a public company, limited by shares and changed its name from Top Shelf International Holdings Pty Ltd to Top Shelf International Holdings Ltd. As these financial statements relate to the period prior to the change to a public company, the reference to the financial statements is to the legal entity in place for the respective reporting periods included.

Top Shelf International Holdings Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office

Goldpats Level 1
189 McKinnon Road
McKinnon VIC 3204

Principal place of business

16-18 National Blvd
Campbellfield VIC 3061

A description of the nature of the Group'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 19 October 2020. The directors have the power to amend and reissue the financial statements.

Note 2. 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 Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are effective as of 30 June 2019.

The Group adopted AASB 9 'Financial Instruments', AASB 15 'Revenue from Contracts with Customers' and AASB 16 'Leases' from 1 July 2017. No other new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Going concern

The Group has net current liabilities of \$2,073,000 (2018: net current assets of \$1,551,000) and net assets of \$11,430,000 (2018: \$9,796,000). Loss for the year to 30 June 2019 was \$2,815,000 (2018: \$1,679,000).

These financial results reflect a significant investment that has been made in establishing production facilities, building inventories of maturing whisky, continued brand promotion, increases to the workforce consistent with increasing revenue and preparation for expansion into new markets, including the production of new product lines and securing supply chains.

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

In assessing the Group's ability to continue as a going concern, the directors have considered relevant facts including that the Group has a history of successfully raising capital and is pursuing an Initial Public Offering (IPO) on the Australian Stock Exchange (ASX) in December 2020 to secure further funding to support its continued expansion plans.

Should the IPO not proceed, the Group will restructure its funding and raise additional funds to support ongoing funding requirements. Under this scenario, the Group will also reduce expansion plans and tailor the business to meet ongoing trading requirements, implement strategies which include extending payment and credit terms and implementing expense saving and efficiency actions without adversely impacting revenue generation. The Board of Directors are satisfied that these

Note 2. Significant accounting policies (continued)

actions are practical and achievable and are therefore satisfied there are reasonable grounds to conclude the Group can continue as a going concern.

Should these strategies not be successful, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern.

Basis of preparation

Although the Company is not a reporting entity and is not subject to Part 2M.3 of the Corporations Act, these general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

For the periods up to and including the year ended 30 June 2017, the Group prepared special purpose financial statements for internal management purposes, that adopted full recognition and measurements of Australian Accounting Standards but selected disclosures. These financial statements are the first general purpose financial statements prepared under Australian Accounting Standard. Refer to Note 3 for impact on first time adoption of Australian Accounting Standards.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, biological assets which have been measured at fair value less costs to sell.

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 Group'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 4.

Parent entity information

These financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 31.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Top Shelf International Holdings Ltd as at 30 June 2019 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group 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 Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. 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 Group 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 Group 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.

Note 2. Significant accounting policies (continued)

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 Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition e.g. discount and re-estimated at every reporting date.

The Group is producer and marketer of high-quality Australian spirits-based beverage brands and provider of contract packaging services. The Group generates revenue from the sale of its branded products and by providing contract packing services to third parties for alcoholic and non-alcoholic products.

Revenue from the sale of these goods is recognised when control over the inventory has transferred to the customer. Control is generally considered to have passed when:

- (a) Physical possession and inventory risk is transferred to the customer;
- (b) Payment terms for the sale of goods can be clearly identified through invoices issued to customers; and
- (c) The customer has no practical ability to reject the product where it is within contractually specified limits.

Sale of branded goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery of the product at the customers location. The normal credit term is 30-60 days upon delivery.

Contract packaging services

Revenue from the sale of contract packaging services is recognised at the point in time to which the customer obtains control of the goods, at the time of delivery/collection of the finished product. Goods manufactured under contract packaging are subject to 30 day terms with no further production being completed until the customer has settled.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of branded products, the Group considers the effects of variable consideration, existence of a significant financing component, non- cash consideration, and consideration payable to the customer (if any).

Variable consideration

If the consideration promised includes a variable component, Top Shelf International estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of branded products provide customers with rebates and discounts which give rise to variable consideration.

Rebates

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. . The rebate amount is determined by a rebate tier in which the customer is most likely to meet the criteria. Based on the tier the estimated rebate amount is calculated and is treated as the variable consideration for the sale.

Excise Duty

The Group incurs excise duties, which are effectively a production tax which becomes payable when the product is removed from bonded premises and is not directly related to the value of sales.

It is not included as a separate item on external invoices; increases in excise duty are not always passed on to the customer and where a customer fails to pay for products received the Group cannot reclaim the excise duty. The Group therefore recognises excise duty, unless it regards itself as an agent of the regulatory authorities, as a cost to the Group and recognised as Cost of Sales in the Income Statement.

Note 2. Significant accounting policies (continued)

Other income

Interest income 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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions pursuant to which they have been granted and that the grants will be received. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. Government grants in respect of property, plant and equipment are deducted from the asset that they relate to, reducing the depreciation expense charged to the income statement.

Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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.

Top Shelf International Holdings Ltd (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 2. Significant accounting policies (continued)

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 Group'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 Group'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.

Deferred tax assets and liabilities are always 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 initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Trade receivables are generally due for settlement within 30 to 60 days from end of month.

The Group 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.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

Inventories

Inventory cost is measured at the weighted average of purchase price of raw materials, net of trade rebates and discounts received, plus the costs incurred in bringing its inventory to its present condition and location including direct expenses, an appropriate proportion of production and other overheads, but not borrowing costs.

Maturing inventories and raw materials which are retained for more than one year are classified as current assets, as they are expected to be realised in the normal operating cycle.

Inventory is stated at the lower of cost and net realisable value. 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.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Note 2. Significant accounting policies (continued)

Investments and other financial assets (continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

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 allocate the cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	10 - 25 years
Plant and equipment - Other	4 - 30 years
Computer equipment	2 - 4 years
Office equipment	10 - 25 years

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

Plant and equipment – Production assets

In relation to production specific plant and equipment the Group has adopted the policy to depreciate on a units of production method. This method is calculated by dividing the cost of the asset (less its salvage value) by the total units expected to produce over its useful life, multiplied by the actual units produced during the year. The Group felt this was a more accurate representation of the equipment.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. 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 Group 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 Group 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.

Note 2. Significant accounting policies (continued)

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.

Intellectual property

Intellectual property relates to trade secrets such as the formation and development of the recipe. These costs are not subsequently amortised. Intellectual property are protected by trademarks, which are renewable indefinitely. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these assets. The nature of the drinks industry is that obsolescence is not a common issue, with indefinite lived intangible assets being commonplace. Accordingly, the Directors believe that it is appropriate that the brands are treated as having indefinite lives for accounting purposes and are therefore not amortised.

Trademarks

Significant costs associated with trademarks are capitalised as an asset. These costs are not subsequently amortised.

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 of 5 years.

Biological assets

The Group carries its biological assets (Agave Seeds, Bulbis, Plants) and Pina at the time of harvest (recorded in inventories immediately after harvest) at fair value less costs to sell. Any gains or losses on remeasuring fair value of biological assets are included within in profit or loss. The Group has determined that its agave plants are mature when they can be commercially harvested, which normally takes approximately four years after planting.

Impairment of tangible and intangible assets

All indefinite-lived intangible assets that are not subject to amortisation are assessed for impairment at least on an annual basis, or whenever an indication of impairment arises. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value less cost of disposal is measured with reference to quoted market prices in an active market. Value in use represents the present value of the future amount expected to be recovered through the cash inflows and outflows arising from the asset's continued use and subsequent disposal.

Impairment losses are recognised in the income statement in the reporting period when the carrying amount of the asset exceeds the recoverable amount. We recognise any reduction in the carrying value as an expense in the income statement in the reporting period in which the impairment loss occurs.

Impairment assessment is performed at the level of our Production and Recipes CGU.

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.

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.

Note 2. Significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group 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 from end of month of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

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

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 Group'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 are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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.

Reserves

Share-based payments reserve represents the value of shares for key management personnel for compensation granted in the form of equity. The amounts are transferred out of the reserve when the shares are issued. Refer to Note 27 for further details on share-based payment arrangements.

Note 2. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 July 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

Other standards and interpretations

The directors have also reviewed all other new Standards and Interpretations that have been issued but are not yet effective as at 30 June 2019. As a result of this review the directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Company and, therefore, no change is necessary to Group accounting policies. These accounting policies are consistent with Australian Accounting Standards and with International Reporting Standards.

Note 3. AASB 1 'First-time Adoption of Australian Accounting Standards'

These financial statements, for the year ended 30 June 2019, are the first the Group has prepared in accordance with Australian Accounting Standards. Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 30 June 2019, together with the comparative period for the year ended 30 June 2018, using the policies as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 July 2017, the Group's date of transition to IFRS.

There was no impact as a result of first-time adoption of Australian Accounting Standards as the Group had previously adopted the measurement and recognition requirements.

Note 4. 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.

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 ('ECL'), grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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.

Determination of CGUs and their recoverable amounts

We apply management judgement to establish our cash generating units ('CGU') and determine their recoverable amounts using a value in use calculation for our impairment assessment.'

We have determined that the assets within the Group comprise two CGUs. We have referred to these CGUs as Branded – Whisky and Contract Packaging in the financial report.

Judgements within the value in use calculation include cash flow forecasts, as well as the selection of growth rates, terminal growth rates, contributory asset charges and discount rates based on past experience and our expectations for the future. Our cash flow projections are based on five-year management-approved forecasts. The forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

Additional estimates have been applied by management regarding the potential financial impact of the Covid-19 pandemic across markets. In this regard a combination of the following factors was considered in every impairment model: the future development of the virus, including the duration, scale and geographic extent of the closures; the expected scale and duration of the economic recovery; the size of the on-trade channel in the market; the life cycle phase of the brand and the maturity of the market.

Depreciation method and estimation of useful lives of assets

The Group has adopted the policy to depreciate plant and equipment relating to production assets on a units of production method. The Group considers the depreciation in line with the estimation of production of units over its useful life to be the measure that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The impact of the production units will be variable in any given financial period and as the business moves towards the full name plate capacity of the assets, it is expected that the annual rate of depreciation under this method will normalise. Any changes made to the assets could impact the estimation of the production capacity of units over its useful life which would change the depreciation per unit. For all other asset classes, it determined that straight-line is the appropriate method of depreciation. These judgements will be applied consistently each period unless there is a change in the expected pattern of consumption of those future economic benefits.

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Note 4. Critical accounting judgements, estimates and assumptions (continued)

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

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

Note 5. Operating segments

Identification of reportable operating segments

The Group is organised into one operating segment as the Group operated only in Australia and one industry, as a producer of branded beverages and provision of co-packing services to third party beverage manufacturers. This is based on the internal reports that are reviewed and used by the Managing Director (who is identified as the Chief Operating Decision Maker ('CODM')) in assessing performance and in determining the allocation of resources. Accordingly, the information provided in this Annual Report reflects the one operating segment.

The CODM monitors the operating results of the business as a whole, while still in growth phase. It will reassess the treatment as the business progresses.

Major customers

During the year ended 30 June 2019 approximately 20% (2018: 25%) of the Group's external revenue was derived from sales to one major customer, Australian Liquor Marketers.

EBITDA

EBITDA is a financial measure monitored by the CODM which is not prescribed by AAS or IFRS. The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group.

A reconciliation of EBITDA to reported loss for the year is shown below.

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Loss for the year	(2,815)	(1,679)
Income tax benefit	(141)	(339)
Interest expense	861	441
Interest income	(3)	-
	<hr/>	<hr/>
Earnings before interest and tax ('EBIT')	(2,098)	(1,577)
Depreciation and amortisation	283	204
	<hr/>	<hr/>
Earnings before interest, tax, depreciation and amortisation ('EBITDA')	(1,815)	(1,373)

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
30 June 2019

Note 6. Revenue from contracts with customers

Disaggregation of revenue

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

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Major product lines</i>		
Branded	1,788	680
Contract packaging	403	-
Rebates and discounts	(28)	(9)
	<hr/> 2,163	<hr/> 671
<i>Geographical regions</i>		
Australia	<hr/> 2,163	<hr/> 671
<i>Timing of revenue recognition</i>		
Goods and services transferred at a point in time	<hr/> 2,163	<hr/> 671

Note 7. Other income

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Research and development ('R&D') income	1,565	-
Allocation of R&D income to assets	(1,348)	-
Other income	<hr/> 82	<hr/> 3
Other income	<hr/> 299	<hr/> 3

Research and development (R&D) income

During the year the Company received payments in relation to Top Shelf's research and development of NED Australian whisky and production streams, and improving plant sugar extraction in cereals, creation of low/no sugar products and identification of Australian plant alternatives. As at 30 June 2019, \$260,000 remains outstanding and is recorded as Other Assets within the Statement of Financial Position.

Note 8. Cost of sales

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Raw materials and overhead	372	369
Excise	1,165	421
Depreciation and amortisation	-	-
Employee benefits expense	<hr/> 28	<hr/> -
	<hr/> 1,565	<hr/> 790

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
30 June 2019

Note 9. Expenses

Consolidated
30 Jun 2019 30 Jun 2018
\$'000 \$'000

Loss before income tax includes the following specific expenses:

Depreciation

Leasehold improvements	7	-
Plant and equipment - production assets	24	-
Plant and equipment - other	7	8
Computer equipment	14	10
Office equipment	1	-
Right-of-use asset	224	119
Total depreciation	<u>277</u>	<u>137</u>

Amortisation

Intellectual property	-	67
Software	<u>6</u>	<u>-</u>
Total amortisation	<u>6</u>	<u>67</u>

Total depreciation and amortisation	<u>283</u>	<u>204</u>
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Employee benefits expense

Wages and salaries	628	225
Superannuation expense	55	21
Share based payments (Note 27)	459	202
Employee leave provisions	<u>40</u>	<u>37</u>
Total employee benefits expense	<u>1,182</u>	<u>485</u>

Finance costs

Interest and finance charges paid/payable	561	280
Interest and finance charges paid/payable on lease liabilities	300	161
Fees on borrowings	<u>169</u>	<u>222</u>
Finance costs expensed	<u>1,030</u>	<u>663</u>

Administration and operating expenses

Professional fees	389	169
Occupancy costs	211	35
Insurance	180	13
Travel	40	12
Motor vehicle	37	32
Other administration and operating expenses	<u>160</u>	<u>105</u>
Total administration and operating expenses	<u>1,017</u>	<u>366</u>

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
30 June 2019

Note 10. Income tax

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Income tax benefit</i>		
Current tax		
	(482)	(420)
Deferred tax - origination and reversal of temporary differences	341	81
Aggregate income tax benefit	<u>(141)</u>	<u>(339)</u>
Deferred tax included in income tax benefit comprises:		
Increase in deferred tax assets / liabilities through P&L	(341)	(81)
Increase/(decrease) in deferred tax through equity	<u>110</u>	<u>92</u>
Deferred tax - origination and reversal of temporary differences	<u>(231)</u>	<u>11</u>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	<u>(2,956)</u>	<u>(2,018)</u>
Tax at the statutory tax rate of 27.5%	(813)	(555)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	-	1
Fines	1	-
R&D expenditure non-deductible	134	-
R&D grant income non-assessable	(54)	-
Deferred tax on R&D grant income capitalised	(376)	-
Deferred tax on R&D expenditure reduction in tax base	830	-
Capital Gain on Tax Consolidation	-	5
Impact of ACA step down in inventory	-	25
Impact of ACA step down in assets	-	130
Share based payments	126	55
Other	11	-
	<u>672</u>	<u>216</u>
Income tax benefit	<u>(141)</u>	<u>(339)</u>
	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets	110	92
Deferred tax liabilities	<u>-</u>	<u>-</u>
	<u>110</u>	<u>92</u>

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
30 June 2019

Note 10. Income tax (continued)

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Deferred tax asset</i>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	903	421
Property, plant and equipment	4	3
Employee benefits	28	10
Provision for lease make good	77	60
Trade and other payables	146	27
Inventories	-	7
	<u>1,158</u>	<u>528</u>
Amounts recognised in equity:		
Share issue transaction costs	<u>201</u>	<u>92</u>
Deferred tax asset	<u>1,359</u>	<u>620</u>
Movements:		
Opening balance	620	-
Credited to profit or loss	629	528
Credited to equity	<u>110</u>	<u>92</u>
Closing balance	<u>1,359</u>	<u>620</u>
The value of unbooked tax losses at 30 June 2019 is \$1,052,000 (30 June 2018: \$1,052,000)		
	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Inventories	-	12
Property, plant and equipment	464	56
Right of return assets	4	29
Intangibles	150	73
Amortisation of capital raising costs	<u>59</u>	<u>18</u>
	<u>677</u>	<u>188</u>
Amounts recognised in equity:		
Capital raising costs	<u>-</u>	<u>-</u>
Deferred tax liability	<u>677</u>	<u>188</u>
Movements:		
Opening balance	189	-
Charged to profit or loss	488	188
Charged to equity	<u>-</u>	<u>-</u>
Closing balance	<u>677</u>	<u>188</u>
Net deferred tax asset	<u>683</u>	<u>432</u>

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
30 June 2019

Note 11. Cash and cash equivalents

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	94	1,264

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Note 12. Trade and other receivables

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	1,066	391
Less: Allowance for expected credit losses	(6)	(18)
	<u>1,060</u>	<u>373</u>
Other receivables	6	-
Goods and services tax recoverable	172	552
Unpaid capital	-	808
	<u>1,238</u>	<u>1,733</u>

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	
Consolidated	30 Jun 2019	30 Jun 2018	30 Jun 2019	30 Jun 2018	30 Jun 2019	30 Jun 2018
	%	%	\$'000	\$'000	\$'000	\$'000
Not overdue	-	-	320	128	-	-
0 to 3 months overdue	1.0%	5.8%	412	194	1	11
3 to 6 months overdue	7.0%	51.1%	334	69	5	7
			<u>1,066</u>	<u>391</u>	<u>6</u>	<u>18</u>

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Note 12. Trade and other receivables (continued)

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

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Opening balance	18	-
Additional provisions recognised	-	46
Receivables written off during the year as uncollectable	(12)	(28)
	<u>6</u>	<u>18</u>
Closing balance		

Note 13. Inventories

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Current assets</i>		
Raw materials	460	-
Raw materials - Third party	30	-
Finished goods	82	172
Less: Provision for impairment	(1)	(25)
	<u>571</u>	<u>147</u>

During the year, \$522,000 (30 June 2018: \$193,000) was recognised as an expense for inventories. This has been recognised in Cost of Sales.

Note 14. Other assets

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Current assets</i>		
R&D grant	260	-
Prepayments	204	16
Deposits with supplier	240	-
Other current assets	2	1
	<u>706</u>	<u>17</u>

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Note 15. Property, plant and equipment

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	1,034	95
Less: Accumulated depreciation	(7)	-
	<u>1,027</u>	<u>95</u>
Plant and equipment - production assets - at cost	14,302	7,906
Less: Accumulated depreciation	(24)	-
	<u>14,278</u>	<u>7,906</u>
Plant and equipment - other - at cost	2,284	450
Less: Accumulated depreciation	(15)	(8)
	<u>2,269</u>	<u>442</u>
Computer equipment - at cost	52	24
Less: Accumulated depreciation	(24)	(10)
	<u>28</u>	<u>14</u>
Office equipment - at cost	16	9
Less: Accumulated depreciation	(1)	-
	<u>15</u>	<u>9</u>
	<u>17,617</u>	<u>8,466</u>

Reconciliations

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

Consolidated	Leasehold improve- ments \$'000	Plant and equipment - production assets \$'000	Plant and equipment - other \$'000	Computer equipment \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2017	-	128	68	6	-	202
Additions	95	7,778	382	18	9	8,282
Depreciation expense -----			(8)	(10)	-	(18)
Balance at 30 June 2018	95	7,906	442	14	9	8,466
Additions	939	7,198	2,095	28	7	10,267
R&D income allocated	-	(802)	(261)	-	-	(1,063)
Depreciation expense -----	(7)	(24)	(7)	(14)	(1)	(53)
Balance at 30 June 2019	<u>1,027</u>	<u>14,278</u>	<u>2,269</u>	<u>28</u>	<u>15</u>	<u>17,617</u>

Impairment testing

The carrying amount of non-current assets have been allocated to the Production CGU. During the financial year, there have been no changes to our CGUs. We did not identify any impairment indicators at the Production CGU.

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Note 16. Right-of-use assets

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Non-current assets</i>		
Buildings - right-of-use	2,943	1,862
Less: Accumulated depreciation	(343)	(119)
	<u>2,600</u>	<u>1,743</u>

The Group leases land and buildings for its offices and warehouses under agreements of 5 years with, and in all cases, options to extend have been taken up determining the right-of-use asset and lease liabilities. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Reconciliations

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

Consolidated	Buildings - right- of-use \$'000
Balance at 1 July 2017	-
Additions	1,862
Depreciation expense	<u>(119)</u>
Balance at 30 June 2018	1,743
Additions	1,081
Depreciation expense	<u>(224)</u>
Balance at 30 June 2019	<u>2,600</u>

Note 17. Intangible assets

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Non-current assets</i>		
Intellectual property - at cost	482	279
Less: Accumulated amortisation	<u>(67)</u>	<u>(67)</u>
	<u>415</u>	<u>212</u>
Trademarks - at cost	<u>413</u>	<u>235</u>
Software - at cost	148	56
Less: Accumulated amortisation	<u>(6)</u>	<u>-</u>
	<u>142</u>	<u>56</u>
	<u>970</u>	<u>503</u>

Note 17. Intangible assets (continued)

Trademarks are renewable indefinitely in all of the major markets where they are registered. There are not believed to be any legal, regulatory or contractual provisions that limit the useful lives of these trademarks. The nature of the industry is that obsolescence is not a common issue, with indefinite brand lives being commonplace. Accordingly, the Group believe that it is appropriate that the trademarks are treated as having indefinite lives for accounting purposes and are therefore not amortised.

Reconciliations

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

Consolidated	Intellectual property \$'000	Trademarks \$'000	Software \$'000	Total \$'000
Balance at 1 July 2017	130	211	31	372
Additions	149	24	25	198
Amortisation expense	(67)	-	-	(67)
Balance at 30 June 2018	212	235	56	503
Additions	487	178	92	757
R&D income allocated	(284)	-	-	(284)
Amortisation expense	-	-	(6)	(6)
Balance at 30 June 2019	415	413	142	970

Impairment testing

The carrying amount of intellectual property and trademarks have been allocated to the Recipe CGU. During the financial year, there have been no changes to our CGUs with indefinite-lived assets.

We have used the following assumptions in determining the recoverable amount of our CGU:

- Discount Rate: 13.4%
- Growth Rate: 0%

Discount rate represents the pre-tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk-adjusted discount rate that is adjusted for specific risks relating to the CGU and the countries in which it operates.

Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five-year forecast period. These growth rates are based on our expectation of the CGUs' long-term performance in their markets.

Sensitivity analysis also examined the effect of a change in a key assumption on the remaining CGUs. There is no reasonable possible change in the discount rate before the recoverable amount of any of the CGUs would equal its carrying value. No other changes in key assumptions will result in a material impairment charge for any of the CGUs.

Note 18. Trade and other payables

	Consolidated 30 Jun 2019 \$'000	30 Jun 2018 \$'000
<i>Current liabilities</i>		
Trade payables	1,443	842
Accrued expenses	527	79
Other payables	39	70
	<u>2,009</u>	<u>991</u>

Refer to note 25 for further information on financial instruments.

Note 19. Borrowings

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Current liabilities</i>		
Loan from Ankara Holdings Pty Ltd - interest bearing	504	-
Loan from Hydraservice Hydraulic Hardware Australia Pty Ltd - interest bearing	338	-
Related party payables	1,410	275
	<u>2,252</u>	<u>275</u>
<i>Non-current liabilities</i>		
Loan from Ankara Holdings Pty Ltd - interest bearing	1,990	1,350
Loan from Longreach Direct Lending Fund - interest bearing	3,946	-
Borrowing costs	(43)	-
	<u>5,893</u>	<u>1,350</u>

Refer to note 25 for further information on financial instruments.

Loan from Ankara Holdings Pty Ltd - current

The loan is interest bearing at a rate of 12.50%. The loan was repaid by 29 June 2020.

Loan from Ankara Holdings Pty Ltd - non-current

The loans are interest bearing with \$640,000 at a rate of 1.25% and the remaining balance at tiered interest rates.

Loans are repayable on 30 September 2021.

Loan from Hydraservice Hydraulic Hardware Australia Pty Ltd - current

The loan is interest bearing at a rate of 1.25% and is repayable on 30 November 2019 or on such other date as may be agreed in writing between the Lender.

Loan from Longreach Direct Lending Fund - non-current

The loan is interest bearing at a rate of 13.75% and is repayable by 30 November 2020.

Related party payables

All related party payables transactions are interest free and are repayable on demand. There have been no guarantees received for any related party payables. Refer to Note 30 for further details.

Total secured liabilities

The total secured liabilities are as follows:

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Loan from Ankara Holdings Pty Ltd - current	504	-
Loan from Ankara Holdings Pty Ltd - non current	1,990	1,350
Loan from Longreach Direct Lending Fund - non-current	3,946	-
	<u>6,440</u>	<u>1,350</u>

Assets pledged as security

The Group's production plant and equipment with carrying value of \$14,278,000 (2018: \$7,906,000) were pledged as security against the Group's borrowings amounting to \$6,440,000 (2018: \$1,350,000)

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Note 19. Borrowings (continued)

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Total facilities		
Loan from Ankara Holdings Pty Ltd - current	504	-
Loan from Ankara Holdings Pty Ltd - non-current	1,990	1,350
Loan from Longreach Direct Lending Fund	3,946	-
	<u>6,440</u>	<u>1,350</u>
Used at the reporting date		
Loan from Ankara Holdings Pty Ltd - current	504	-
Loan from Ankara Holdings Pty Ltd - non-current	1,990	1,350
Loan from Longreach Direct Lending Fund	3,946	-
	<u>6,440</u>	<u>1,350</u>
Unused at the reporting date		
Loan from Ankara Holdings Pty Ltd - current	-	-
Loan from Ankara Holdings Pty Ltd - non-current	-	-
Loan from Longreach Direct Lending Fund	-	-
	<u>-</u>	<u>-</u>

Note 20. Lease liabilities

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Current liabilities</i>		
Lease liability	<u>346</u>	<u>308</u>
<i>Non-current liabilities</i>		
Lease liability	<u>2,238</u>	<u>1,331</u>
<i>Maturity analysis</i>		
The maturity analysis of lease liabilities is as follows:		
Maturity analysis - contractual undiscounted cash flows		
Less than one year	346	308
One to five years	1,932	1,863
More than five years	3,109	3,524
Total undiscounted lease liabilities at 30 June	<u>5,387</u>	<u>5,695</u>
Lease liabilities included in the statement of financial position		
Lease liabilities included in the statement of financial position at 30 June	<u>2,584</u>	<u>1,639</u>
Represented by:		
Lease liabilities - current	346	308
Lease liabilities - non-current	2,238	1,331
	<u>2,584</u>	<u>1,639</u>

Note 21. Provisions

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Non-current liabilities</i>		
Lease make good	<u>279</u>	<u>218</u>

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

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Note 22. Provisions (continued)

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	<i>Lease make good \$'000</i>
Consolidated - 30 Jun 2019	
Carrying amount at the start of the year	218
Additional provisions recognised	<u>61</u>
Carrying amount at the end of the year	<u>279</u>

Note 22. Issued capital

	Consolidated			
	30 Jun 2019 Shares	30 Jun 2018 Shares	30 Jun 2019 \$'000	30 Jun 2018 \$'000
Ordinary shares - fully paid	6,363	5,900	14,262	11,603
Ordinary shares - unpaid	-	105	-	603
Share issue transaction costs (net of tax)			<u>(529)</u>	<u>(242)</u>
	<u>6,363</u>	<u>6,005</u>	<u>13,733</u>	<u>11,964</u>

Movements in ordinary share capital

	Date	Shares	Issue price	\$'000
Balance	1 July 2017	1,717		201
Issue of shares	18 August 2017	112	\$1,383.93	155
Issue of shares	22 December 2017	201	\$1.00	-
Issue of shares	23 March 2018	65	\$2,297.09	149
Issue of shares	15 June 2018	23	\$1,102.94	26
Issue of shares	21 June 2018	3,090	\$2,297.09	7,098
Issue of shares	22 June 2018	797	\$5,743.00	4,577
Share issue transaction costs				<u>(242)</u>
Balance	30 June 2018	6,005		11,964
Issue of shares	18 December 2018	305	\$5,743.00	1,752
Issue of shares	11 January 2019	53	\$5,743.00	304
Share issue transaction costs				<u>(287)</u>
Balance	30 June 2019	<u>6,363</u>		<u>13,733</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.

Capital risk management

The Group'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.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Note 23. Other contributed equity

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
Other contributed equity	2,221	-

Other contributed equity relates to advance payment for shares issued in July 2019. This balance was reclassified to issued capital upon issuance.

Note 24. Dividends

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

Note 25. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk. The Group'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 Group. The Group 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 and other price risks and ageing analysis for credit risk.

The Group is exposed to risks arising from environmental changes as well as the financial risk in respect of agricultural activities.

The primary financial risk associated with the Group's agricultural activity occurs due to the length of time between expending cash on the purchase, or planting and maintenance of agave plants, harvesting the plants and making the spirit, to receiving cash from the sale of spirits to third parties. The Group's strategy to manage this financial risk is to actively review and manage working capital requirements, along with consultation with Agricultural experts.

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 Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward- looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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Note 25. Financial instruments (continued)

Liquidity risk

Vigilant liquidity risk management requires the Group 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 Group 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.

Remaining contractual maturities

The following tables detail the Group'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.

	Weighted average interest rate %	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated - 30 June 2019					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables		2,010	-	-	2,010
Related party payable		1,410	-	-	1,410
<i>Interest-bearing - variable</i>					
Loan with Ankara Holdings Pty Ltd	12.99%	-	1,990	-	1,990
Loan with LongReach Direct Lending Fund	13.75%	-	3,946	-	3,946
Lease liability	12.00%	346	1,932	3,109	5,387
<i>Interest-bearing - fixed rate</i>					
Loan with Ankara Holdings Pty Ltd	4.63%	504	-	-	504
Loan with Hydraservice Hydraulic Hardware Australia Pty Ltd	1.97%	338	-	-	338
Total non-derivatives		4,608	7,868	3,109	15,585
Consolidated - 30 Jun 2018					
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables		991	-	-	991
Related party payable		275	-	-	275
<i>Interest-bearing - variable</i>					
Loan from Ankara Holdings Pty Ltd	1.75%	-	1,350	-	1,350
Lease liability	12.00%	308	1,863	3,524	5,695
Total non-derivatives		1,574	3,213	3,524	8,311

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

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Note 26. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Note 27. Key management personnel disclosures

Compensation

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

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$	\$
Short term employee benefits	486,687	193,350
Post-employment benefits	22,837	14,506
Share based payments	459,440	201,868
	<u>969,064</u>	<u>409,724</u>
Equity contributions – 176 shares (2018: 791 shares)	1,010,768	2,330,392

The Group granted certain Directors and the Company Secretary, all who are considered key management personnel, shares in exchange for their services during each financial year. The fair value of the services received as consideration for shares in Top Shelf International Holdings Ltd are referenced to the value at the share price from the most relevant equity raising. These were granted evenly throughout the financial year with 85 shares granted in the 2018 financial year at a weighted average price of \$2,375 and 80 shares granted in the 2019 financial year at a weighted average price of \$5,743. These equity-settled share based arrangements did not have any vesting conditions attached therefore the full amount of shares granted has been expensed in each respective financial year. All shares were issued to the Directors on 29 July 2020 resulting in a transfer of the share from reserves into issued capital.

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young Australia, the auditor of the Group:

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$	\$
<i>Audit services - Ernst & Young</i>		
Audit of the financial statements	<u>100,550</u>	<u>71,500</u>

Note 29. Contingent liabilities

The Group has given bank guarantees as at 30 June 2019 of \$50,000 (2018: Nil) to various landlords.

Note 30. Related party transactions

Parent entity

Top Shelf International Holdings Ltd is the ultimate parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Key management personnel

Disclosures relating to key management personnel are set out in note 27.

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Note 30. Related party transactions (continued)

Loans to/from and payables to related parties

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

	Consolidated	
	30 Jun 2019	30 Jun 2018
	\$	\$
Current borrowings:		
Related party payable from Fairchild Advisory Pty Ltd, a director related entity associated with Drew Fairchild	552,013	196,166
Related party payable from DanDrewFairchild Pty Ltd, a director related entity associated with Drew Fairchild	1,877	2,877
Related party payable from Jason Antony Redfern, director	11,133	76,133
Related party payable from key management personnel - Sandra Hutchins	350,000	-
Related party payable from key management personnel - Michael Brain	100,000	-
Related party payable from key management personnel - Kim Graves	200,000	-
Related party payable from key management personnel - Bill Batsilas	194,668	-
Loan from Ankara Holdings, a director related entity associated with Adem Karafili	539,461	-
Loan from Hydraservice Hydraulic Hardware Australia Pty Ltd, an entity associated with an Employee	337,750	-
Non-current borrowings:		
Loan from Ankara Holdings, a director related entity associated with Adem Karafili	1,990,000	1,350,000

Terms and conditions

All loan transactions were made on normal commercial terms and conditions and at market rates. All related party payables transactions are interest free.

Note 31. Parent entity information

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

	Parent	
	30 Jun 2019	30 Jun 2018
	\$'000	\$'000
<i>Statement of profit or loss and other comprehensive income</i>		
Profit/(loss) after income tax	820	(317)
Total comprehensive income	820	(317)
<i>Statement of financial position</i>		
Total current assets	324	745
Total assets	25,439	13,512
Total current liabilities	2,883	421
Total liabilities	8,982	1,865
Equity		
Issued capital	13,733	11,964
Other contributed equity	2,221	-
Reserves	661	202
Retained profits/(accumulated losses)	(158)	(519)
Total equity	16,457	11,647

The Group have concluded that the total assets of the parent entity is not impaired on that basis that the recent equity raising is a proxy for FV of investments in subsidiaries.

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 30 June 2019 and 30 June 2018.

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Note 31. Parent entity information (continued)

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 32. 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 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		30 Jun 2019 %	30 Jun 2018 %
Top Shelf International Packaging Pty Ltd	Australia	100%	100%
Top Shelf International Brands Pty Ltd	Australia	100%	100%
Top Shelf International Pty Ltd	Australia	100%	100%

Note 33. Cash flow information

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

	Consolidated	
	30 Jun 2019 \$'000	30 Jun 2018 \$'000
Loss after income tax benefit for the year	(2,815)	(1,679)
Adjustments for:		
Depreciation and amortisation	283	205
Finance costs	1,030	663
Share based payments	459	202
Other	-	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(313)	(880)
(Increase)/decrease in inventories	(424)	73
(Increase)/decrease in deferred tax assets	(141)	(340)
Increase in prepayments	(187)	(12)
Increase in other assets	(275)	-
Increase in trade and other payables	1,018	848
Increase in employee benefits	40	37
Net cash used in operating activities	(1,325)	(883)

Note 33. Cash flow information(continued)

Changes in liabilities arising from financing activities

	Borrowings – related party \$'000	Borrowings – external financier \$'000	Lease liabilities \$'000
Balance at 1 July 2017	1,297	-	-
Additions	1,350	-	1,800
Repayments of principal	(1,022)	-	(6)
Other	-	-	(155)
Balance at 30 June 2018	1,625	-	1,639
Additions	2,617	4,046	1,381
Repayments of principal	-	(100)	(136)
Other	(43)	-	(300)
Balance at 30 June 2019	4,199	3,946	2,583

Note 34. Events after the reporting period

In October 2019, the Company changed from a proprietary company, limited by shares to a public company, limited by shares and changed its name from Top Shelf International Holdings Pty Ltd to Top Shelf International Holdings Ltd.

Throughout the 2020 financial year, the Group commenced co-packing for third parties, whilst concurrently undertaking the production of whisky wash and distillation of new make spirit. The Group continued to sell all of its available production whilst at the same time laying down increasing volumes of new make whisky for maturation over the planned two-year cycle.

Development of the Group's maturation facility at Somerton advanced and was commissioned in the quarter 3 in the 2020 financial year. During the year significant R&D activities continued and work commenced on the development of the Group's planned Australian vodka product range.

In December 2019 plans for the acquisition of the 440-hectare agave farm south of Bowen came to fruition with possession being taken in early January 2020.

The existence of the infectious disease COVID-19 ('Coronavirus') has become widely known subsequent to the end of the financial year, and rapidly spread throughout the world, including Australia. Since the reporting date this has continued to cause increasing disruption to populations, to business and economic activity. The Group were able to remain open and continued to trade through this period.

Business trading performance has been relatively stable through the most recent period (March – September 2020) during which the COVID-19 pandemic has impacted Top Shelf's primary operating market of Australia. Top Shelf's contract packaging services were negatively impacted during the fourth quarter of FY20, however, the demand for the contract packaging services and throughput of the associated bottling and canning production lines in the first quarter of FY21 has been above pre-COVID levels.

In the short-term (remainder of 2020), the ongoing restrictions of social gatherings (such as get togethers, parties and sporting events) and on-premise events, are likely to have a negative impact, particularly in the state of Victoria. Conversely, with more people restricted from attending public premises and events, there has been an increase in at-home and locally made beverage consumption.

The financial statements have been prepared based upon conditions existing at 30 June 2019 and considering those events occurring subsequent to that date, that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of COVID-19 occurred after 30 June 2019, its impact is considered an event that is indicative of conditions that arose after the reporting period and accordingly, no adjustments have been made to financial statements as at 30 June 2019 for the impacts of COVID-19. As this situation continues to develop, we will continue to assess any potential impact this may have on the Group.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Top Shelf International Holdings Ltd

**Directors' declaration
30 June 2019**

In accordance with a resolution of the directors of Top Shelf International Ltd, I state that:

In the opinion of the directors, we declare:

- (a) The Company is not a reporting entity as defined in the Australian Accounting Standards. This general purpose financial report has been prepared in accordance with the accounting policies outlined in Note 2 to the financial statements.
- (b) the financial statements and notes of the Company:
 - i. present fairly the Company's financial position as at 30 June 2019 and 30 June 2018 of its financial performance for the periods ended on that date; and
 - ii. comply with Australian Accounting Standards to the extent described in Note 2 to the financial statements;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the directors



Drew Fairchild
Founder and Managing Director



Adem Karafili
Chair

19 October 2020
Melbourne



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working world**

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Independent Auditor's Report to the Members of Top Shelf International Holdings Ltd (formerly Top Shelf International Holdings Pty Ltd)

Opinion

We have audited the financial report of Top Shelf International Holdings Ltd (formerly Top Shelf International Holdings Pty Ltd) (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated and Company statements of financial position as at 30 June 2019 and 30 June 2018; the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended; notes to the financial statements, including a summary of significant accounting policies; and the directors declaration.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial report presents fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019 and 30 June 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Australian Accounting Standards

Basis for Qualified Opinion

We were appointed as auditors of the Group on 29 April 2019 and as a result did not observe the counting of the physical inventories at the beginning of the 2018 financial year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 1 July 2017. Since opening inventories are critical to the determination of the financial performance and cash flows, we are unable to determine whether adjustments might have been necessary in respect of the income for the 2018 financial year as reported in the consolidated statement of comprehensive income and the net cash flows from operating activities as reported in the consolidated statement of cash flows.

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

Emphasis of Matter

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial report, which indicates that the Group is pursuing strategies to secure further funding to support its continued expansion plans.

Inability to successfully execute these strategies may cast significant doubt on the Group's ability to continue as a going concern, therefore whether it will realise its assets and liabilities in the normal course of business and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

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

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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 and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's and Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or 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 the 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 judgment 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 Company's or 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 Company's or 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 Company or 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.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink, appearing to be 'Brett Croft'.

Brett Croft
Partner
Melbourne
19 October 2020