Candy Club Holdings Limited

ACN 629 598 778

Annual Report - 31 December 2019

Candy Club Holdings Limited
Corporate directory
31 December 2019

Directors	Mr Keith Cohn (Executive Director) Mr Andrew Clark (Non Executive Director) Mr James Baillieu (Non Executive Chairman) Mr Chi Kan Tang (Non-Executive Director)
Company secretary	Mr Justyn Stedwell
Registered office	C/- Moray & Agnew Lawyers Level 6, 505 Little Collins Street Melbourne VIC 3000, Australia
Principal place of business	5855 Green Valley Circle Suite 101 Culver City, CA 90230
Share register	Automic Group Level 5, 126 Phillip Street Sydney NSW 2000, Australia
Auditor	HLB Mann Judd (Vic) Partnership Level 9, 575 Bourke Street, Melbourne VIC 3000, Australia
Solicitors	Moray & Agnew Lawyers Level 6, 505 Little Collins Street, Melbourne VIC 3000, Australia
Stock exchange listing	Candy Club Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: CLB) Candy Club Holdings Limited options are listed on the Australian Securities Exchange (ASX code: CLBO)
Website	https://www.candyclub.com
Corporate Governance Statement	Refer to https://www.candyclub.com

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Candy Club Holdings Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 2019.

Directors

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

Keith Cohn
Robert Hines (resigned 3 October 2019)
Chi Kan Tang
Zachry David Rosenberg (resigned on 16 September 2019)
James Baillieu (appointed 7 February 2019 and resigned 28 February 2019 and reappointed on 16 September 2019)
Andrew Clark (appointed 3 October 2019)

Principal activities

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

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

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax amounted to $7,844,962 (31 December 2018: $1,298,090).

The 2019 year was a transformational year for Candy Club as it refocused the majority of its resources towards building its B2B wholesale business, repositioned its B2C subscription business to be run for maximum efficiency vs. scale and completed its public listing on the ASX.

Candy Club's B2B segment saw an increase in the total number of retail doors shipped in FY2019 by 275% from 1,200 to 4,500. Candy Club continues to experience rapid accelerating growth in the number of retail doors carrying its product resulting from signing partnerships with large US national retailers. It has continued to add large, prominent retailers in Q1 2020 and is on pace to penetrate 8,000 retail doors by April 2020 with a target to achieve more than 15,000 retail doors by December 2020.

Candy Club recorded outstanding retail sales in 2019 and repeat orders accounted for 55% of total revenue in FY2019, even with a significant increase in new customers during the period. The Company's top 10 B2B customers re-ordered at an average of 11 times throughout the year.

Candy Club's B2C subscription business is being managed for an optimum ROI. This segment's largest variable expense is its cost per acquisition ("CPA"), which dropped to $US23 in 2019 vs. $US 43 the prior year, a direct result of focusing on efficiency vs. scale. This trend has continued in Q1 2020 with CPA currently running below $10.

The B2C segment remains a key part of the Company's overall strategy in its aim to achieve economies of scale. Candy Club believes that this can be accomplished through big-data customer insights, consumer-facing advertising and brand building efforts which will, directly and indirectly, benefit the Company's B2C and B2B segments.

In FY2019 the Company made infrastructure investments in an Enterprise software system ("ERP") to manage and integrate all of its core operating functions and in automated assembly equipment it uses in its manufacturing processes. Both projects were designed to improve the Company's efficiency and profitability. With further margin improvement initiatives being implemented throughout FY2020 and additional scale it expects from its B2B segment.

Significant changes in the state of affairs

On 19 February 2019, the company successfully completed its IPO, and was officially admitted onto the Australian Securities Exchange. Under its IPO, the company issued 25,120,020 fully paid ordinary raising $5,024,004 before costs. A further 1,448,862 fully paid ordinary shares were issued to the lead manager.

Since completing its IPO, the company has issued a further 23,929,856 fully paid ordinary shares raising $1,914,388, before costs. It has also issued 11,890,492 fully paid ordinary shares on the conversion of debt and to settle creditors valued at $892,935.

During the year company has issued 2,738,165 unlisted options over ordinary shares under its ESOP. In addition the company issued 42,253,897 listed options (ASX: CLBO) in relation to its borrowings.

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

Matters subsequent to the end of the financial period

On 17 January 2020, the company issued 55,068,023 fully paid ordinary shares with a value of $3,761,791 to settle various current liabilities. In addition the company issued 27,774,939 listed options (ASX : CLBO). The options have an exercise price of 10 cents and are exercisable at any time expiring on 31 May 2023.

On 17 January 2020, the company has 18,700,000 unlisted options as remuneration to key management personnel. These options have a value of $352,093.

On 29 January 2020, the company announced that the company had received convertible debt totalling US$600,000 from directors and major shareholders. Interest is payable 1% per month and the balance is convertible into shares $0.125 per share at the holder's option.

On 18 March 2020, the company announced that it had entered into a non-binding term sheet with an inventory financing lender of up to US $1.5 million.

On 18 March 2020, the company announced that it has entered into additional bridging loans with directors totalling US $650,000. The loans will carry a 12% annual interest rate and can be converted into shares at conversion price of $0.04 per shares. A listed Candy Club Holding Option (ASX: CLBO) will be included for each converted share.

During the week beginning 16 March 2020, the US, state and local governments announced a series of measures aimed at preventing the spread of COVID-19 (“measures”), which had the subsequent effect of impacting the state of the US economy (i.e. impact on supply chain, customers, availability of finance, consumer confidence, etc.).

In addressing and implementing the necessary changes to ensure Candy Club comply with these measures, the Board has agreed to implement, amongst others, the following:

- Enacting Candy Club’s stated business continuity plan of enabling all Company employees, including head office and sales staff, to work remotely, until further notice;
- To date, no business interruptions have occurred in either the Company’s warehousing and distribution center operations, located primarily in Indiana, nor in its supply chain of core product or packaging vendors, as we and our facility are classified as a food manufacturer and currently considered “essential critical business infrastructure”; given the fluidity of the situation this is subject to change in the future;
- There are segments of the Company’s business that will be negatively impacted by these events, such as sales to retail stores and hospitality outlets, and segments that may not be negatively impacted and could actually see an uptick as a result of these measures, including e-commerce and grocery customers. It is still too early to tell how 2020 revenue, earnings and cash flow will be impacted by the measures required by COVID-19; and
- Requested management review and revise Candy Club’s 2020 operating plans, including operating expense management solutions and associated cashflow budget, which is still on-going.

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

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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

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

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

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

Information on directors

Name:	Keith Cohn
Title:	Executive Director
Experience and expertise:	Keith founded the Candy Club Business in 2014 and currently serves as the Chief Executive Officer of the Company. Keith has over 20 years of consumer industry experience and has held various executive marketing roles in the industry. Keith began his career as a Product Manager for Parkers Brothers, a division of Hasbro, Inc in managing the product lines of toys. He then proceeded to work as a Senior Product manager for Mattel, Inc. Keith subsequently worked at Equity Marketing, Inc, where he served as Vice President of the consumer division and was responsible for negotiating master licensing agreements with Universal Studios, Warner Bros. Entertainment Inc. and Lyrick Studios and launched product lines on a worldwide basis.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	10,957,619 fully paid ordinary shares
Interests in options:	16,231,333 options over ordinary shares
Interests in rights:	2,000,000 performance rights

Name:	Robert Hines
Title:	Non-Executive Chairperson (resigned 3 October 2019)
Experience and expertise:	Robert has been a member of the Australian Institute for Company Directors (AICD) since 1997, including serving on the AICD Board in Queensland from 2000 to 2004. Mr Hines has held a number of Board positions since 2001, including Chairman of Genetraks Ltd, Group Chairman of the CEO Circle, executive director of VeCommerce Ltd and non-executive director of Sportsbet Pty Ltd. He was also a member of the Advisory Board of Griffith University from 2002 to 2004.
Other current directorships:	Nil
Former directorships (last 3 years):	N/A
Interests in shares:	N/A
Interests in options:	N/A
Interests in rights:	N/A

Name:	Chi Kan Tang
Title:	Non Executive Director
Qualifications:	Kan is a qualified Chartered Professional Accountant (CPA) and qualified Chartered Financial Analyst (CFA) and holds a Bachelor of Commerce from the University of Alberta.
Experience and expertise:	Kan is the founding partner of Asia Summit Capital, a private equity firm established in 2014, focused on consumer growth and the technology sector in Indonesia and Southeast Asia. Prior to this, Kan developed considerable experience in the online and landbase gaming industry with particular expertise in markets within the Asia-Pacific region. In 2003, Kan co-founded AsianLogic Limited, a Hong Kong based gaming company. During his time at Asianlogic, he took on numerous senior roles and responsibilities from CFO in the early stages of the company growth, to Business Development Director and was promoted to Chief Officer of Asianlogic from 2009 to 2014. Kan has also launched a series of SMEs including multiple F&B, leisure and 7-Eleven franchises in Hong Kong and the Philippines.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	29,501,350 fully paid ordinary shares
Interests in options:	11,214,711 options over ordinary shares
Interests in rights:	Nil

Name:	Zachry David Rosenberg
Title:	Non Executive Director (resigned 16 September 2019)
Qualifications:	Zachry holds a Bachelor of Commerce from Monash University.
Experience and expertise:	Zachry is the Founding Partner of Capital Zed, a private growth capital investor based out of Melbourne, Australia, with significant minority investments in Australia, New Zealand, the USA, Hong Kong and the United Kingdom. His current board roles include Unleashed Software Limited (New Zealand), The Influential Network (USA), Predictive Hire Pty Ltd (Australia) and Intelledox Pty Ltd (Australia), as well as a number of private investment companies and vehicles.
Other current directorships:	N/A
Former directorships (last 3 years):	N/A
Interests in shares:	N/A
Interests in options:	N/A
Interests in rights:	N/A

Name:	Mr James Baillieu
Title:	Non Executive Director (appointed 7 February 2019 and resigned 28 February 2019) and appointed Chairman on 16 September 2019
Qualifications:	James holds an LLB (First Class Honours) and Bachelor of Arts from the University of Melbourne
Experience and expertise:	James previously served as Senior Vice President of Business Development at Aconex Limited (ASX:ACX) and was an early investor in and consultant to Aconex Limited. James spent more than seven years as a consultant with McKinsey & Co, assisting businesses in Australia and internationally with strategy and operational improvement. James was previously a lawyer who practised in commercial law with Mallesons Stephen Jacques in the 1990s.
Other current directorships:	Nil
Former directorships (last 3 years):	Bidenergy Ltd (ASX: BID) - resigned 22 February 2019
Interests in shares:	58,013,424 fully paid ordinary shares
Interests in options:	25,161,506 options over ordinary shares
Interests in rights:	Nil

Name:	Andrew Clark
Title:	Non-Executive Director (appointed 3 October 2019)
Experience and expertise:	Andrew Clark joins the Candy Club Board with a wealth of knowledge gained in executive and senior leadership positions whilst working for more than 20 years in the Consumer Goods sector. Andrew's experiences have included domestic and global roles held in large multi-national and national public businesses and smaller private equity businesses covering manufacturer/supplier, wholesaler/retailer and technology/platform operations in the Australian, UK and US markets. Andrew has held various roles at Cadbury Schweppes, Reckitt Benckiser (including Global Sales Development Director and USA Vice President Trade Marketing); Nestle (Head of Sales and Category); Metcash (General Manager Merchandise: Food and Non-Food) and irexchange (CEO - FMCG).
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Interests in shares:	Nil
Interests in options:	3,100,000 options over ordinary shares

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

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

Company secretary
Justyn Stedwell is a professional Company Secretary consultant with over eleven years' experience as a Company Secretary of ASX listed companies in a wide range of industries. His qualifications include a Bachelor of Commerce (Management and Economics) from Monash University, a Graduate Diploma of Accounting from Deakin University and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. He is currently the Company Secretary of several ASX listed companies.

Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') held during the period ended 31 December 2019, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Keith Cohn	6	6
Robert Hines	4	5
Chi Kan Tang	6	6
Zachry David Rosenberg	5	5
Andrew Clark	1	1
James Baillieu	1	1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Voting and comments made at the company's 8 May 2019 Annual General Meeting ('AGM')
At the 8 May 2019 AGM, 92.92% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

2019	Short-term benefits Cash salary and fees $	Cash bonus $	Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Equity-settled $	Total $
Non-Executive Directors:							
Robert Hines	32,909	-	-	-	-	-	32,909
Zachry Rosenberg	28,332	-	-	2,692	-	9,924	40,948
Chi Kan Tang	34,740	-	-	3,300	-	-	38,040
Andrew Clark	13,454	-	-	1,278	-	-	14,732
James Baillieu	15,900	-	-	-	-	-	15,900
Executive Directors:							
Keith Cohn	351,359	-	-	-	-	308,778	660,137
	476,694	-	-	7,270	-	318,702	802,666

24 Oct 2018 to 31 Dec 2018	Short-term benefits Cash salary and fees $	Cash bonus $	Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Equity-settled $	Total $
Non-Executive Directors:							
Robert Hines	12,240	-	-	-	-	-	12,240
Zachry Rosenberg	8,160	-	-	-	-	-	8,160
Chi Kan Tang	8,160	-	-	-	-	-	8,160
Executive Directors:							
Keith Cohn	47,630	-	-	-	-	12,993	60,623
	76,190	-	-	-	-	12,993	89,183

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2019	24 Oct 2018 to 31 Dec 2018	2019	24 Oct 2018 to 31 Dec 2018	2019	24 Oct 2018 to 31 Dec 2018
Non-Executive Directors:						
Robert Hines	100%	100%	-	-	-	-
Zachry Rosenberg	76%	100%	-	-	24%	-
Chi Kan Tang	100%	100%	-	-	-	-
Andrew Clark	100%	-	-	-	-	-
James Baillieu	100%	-	-	-	-	-
Executive Directors						
Keith Cohn	53%	79%	-	-	47%	21%

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

Name:	Keith Cohn
Title:	Executive Director
Term of agreement:	US$275,000 per annum (approximately $385,000), plus an allowance of US$1,750 per month. Employment can be terminated by either party at any time with or without reason and with or without notice.

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

Name:	Andrew Clark
Title:	Non-Executive Director
Term of agreement:	$55,000 per annum (plus superannuation)

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

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

Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the period ended 31 December 2019.

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

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

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the period ended 31 December 2019.

Additional information
The earnings of the consolidated entity for the two years to 31 December 2019 are summarised below:

	2019 $	2018 $
Sales revenue	6,769,098	1,037,442
Net loss attributable to owners	(7,844,962)	(1,298,090)

New accounting standards applied

The consolidated entity applied AAS16 for the first time in 2019. It has been applied retrospectively with the cumulative effect of initially applying the standard recognised as an adjustment to accumulated losses at 1 Jan 2019. The comparatives have not been re-stated and were reported under AASB 117 – Leases.

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

	2019	2018
Share price at financial year end ($) *	0.07	-
Total dividends declared (cents per share)	-	-
Basic earnings per share (cents per share)	(5.39)	(1.73)
Diluted earnings per share (cents per share)	(5.39)	(1.73)

* On 19 February 2019, the company successfully completed its IPO, and was officially admitted onto the Australian Securities Exchange. Under its IPO, the company issued 25,120,020 fully paid ordinary raising $5,024,004 before costs.

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the period	Held at appointment	Additions	Disposals/ other	Balance at the end of the period
Ordinary shares					
Mr Keith Cohn	9,091,947	-	-	-	9,091,947
Mr Zachry Rosenberg *	2,374,895	-	741,874	(3,116,769)	-
Mr Chi Kan Tang	20,438,189	-	7,812,730	-	28,250,919
James Baillieu	-	6,534,682	2,178,228	-	8,712,910
Robert Hines *	-	-	413,334	(413,334)	-
	31,905,031	6,534,682	11,146,166	(3,530,103)	46,055,776

* resigned during the year

Option holding

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

	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
Options over ordinary shares					
Keith Cohn	631,333	-	-	-	631,333
Zachry Rosenberg *	-	641,874	-	(641,874)	-
Robert Hines *	-	103,334	-	(103,334)	-
Ch Kan Tang	-	7,062,730	-	-	7,062,730
James Baillieu	-	2,178,228	-	-	2,178,228
	631,333	9,986,166	-	(745,208)	9,872,291

* resigned during the year

Loans from key management personnel and their related parties

Directors and their related entities have provided loans with a carrying value of $1,622,407 at 31 December 2019. The loans includes a balance of $1,500,000 with interest payable at 2% per month. Interest is payable on the remainder of balance at 10% accruing daily. An amount of $87,005 has been offset against this amount representing the fair value of the options which has not been issued at 31 December 2019, which related to this bridging finance.

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

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

During the current year, an assessment was made and it was determined that it was probable that the conditions attached to the class A performance shares may be achieved. An expense of $19,848 has been recognised,

This concludes the remuneration report, which has been audited.

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

Grant date	Expiry date	Exercise price	Number under option
Between 30 March 2015 and 12 September 2016 *	48 months from the date of grant	$1.6577	687,488
Between 5 April 2017 and 15 August 2018 **	48 months from the date of grant	$0.0041	1,582,128
19 February 2019	48 months from the date of grant	$0.3000	2,000,000
11 November 2018 *	11 March 2020	$1.6570	87,668
13 June 2019 and 7 November 2019	31 May 2023	$0.1000	42,253,897
3 July 2019	27 March 2023	$0.1550	2,578,165
14 November 2019	23 October 2023	$0.0760	160,000
17 January 2020 ***	15 January 2024	$0.0000	3,100,000
17 January 2020	15 January 2024	$0.2000	5,200,000
17 January 2020	15 January 2024	$0.2500	5,200,000
17 January 2020	15 January 2024	$0.3000	5,200,000
			68,049,346

* Exercise price is US$1.17
** Exercise price is US$0.0029
*** Exercise price is 150% of the company's 10 day VWAP immediately prior to exercise.

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

Shares issued on the exercise of options
There were no ordinary shares of Candy Club Holdings Limited issued on the exercise of options during the period ended 31 December 2019 and up to the date of this report.

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

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

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

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

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

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 24 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

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

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

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

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

On behalf of the directors

Keith Cohn
Executive Director

31 March 2020

Auditor's independence declaration

As lead auditor for the audit of the consolidated financial report of Candy Club Holdings Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Jude Lau
Partner

Melbourne
31 March 2020

HLB Mann Judd (VIC Partnership) ABN 20 696 861 713
Level 9, 575 Bourke Street, Melbourne VIC 3000 | GPO Box 2850, Melbourne VIC 3001
T: +61 (0) 3 9606 3888 F: +61 (0) 3 9606 3800 E: mailbox@hlbvic.com.au

General information

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

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

Registered office	**Principal place of business**
C/- Moray & Agnew Lawyers Level 6, 505 Little Collins Street Melbourne VIC 3000, Australia	5855 Green Valley Circle Suite 101 Culver City, CA 90230

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 March 2020. The directors have the power to amend and reissue the financial statements.

Candy Club Holdings Limited
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2019

	Note	Consolidated 2019 $	24 Oct 2018 to 31 Dec 2018 $
Revenue	4	6,798,720	1,037,442
Other income	5	123,596	-
Interest revenue calculated using the effective interest method		268	15
Expenses			
Cost of sales		(5,850,971)	(702,277)
Corporate and administration expenses		(1,046,225)	(252,257)
Marketing and promotional expenses		(1,860,285)	(413,923)
Employee benefits expense		(3,552,812)	(551,141)
Development expenses		(258,994)	(99,610)
Depreciation and amortisation expense	6	(256,878)	(6,368)
Technology expenses		(217,549)	(48,075)
Property expenses		(115,119)	(64,341)
Other expenses		(977,209)	(177,210)
Finance costs	6	(631,504)	(20,345)
Loss before income tax expense		(7,844,962)	(1,298,090)
Income tax expense	7	-	-
Loss after income tax expense for the period attributable to the owners of Candy Club Holdings Limited		(7,844,962)	(1,298,090)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(26,247)	(87,122)
Other comprehensive loss for the period, net of tax		(26,247)	(87,122)
Total comprehensive loss for the period attributable to the owners of Candy Club Holdings Limited		(7,871,209)	(1,385,212)
		Cents	**Cents**
Basic earnings per share	34	(5.39)	(1.73)
Diluted earnings per share	34	(5.39)	(1.73)

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

Candy Club Holdings Limited
Consolidated statement of financial position
As at 31 December 2019

	Note	Consolidated 2019 $	Consolidated 2018 $
Assets			
Current assets			
Cash and cash equivalents		775,541	12,496
Trade and other receivables	8	354,603	172,466
Inventories	9	3,422,375	2,449,498
Other	10	105,213	845,005
Total current assets		4,657,732	3,479,465
Non-current assets			
Property, plant and equipment		34,079	65,049
Right-of-use assets	11	599,046	-
Intangibles		79,799	7,300
Other	12	35,684	75,684
Total non-current assets		748,608	148,033
Total assets		5,406,340	3,627,498
Liabilities			
Current liabilities			
Trade and other payables	13	4,242,461	4,199,303
Contract liabilities	14	-	174,551
Borrowings	15	2,234,021	578,067
Lease liabilities	16	249,376	-
Provisions	17	71,367	-
Total current liabilities		6,797,225	4,951,921
Non-current liabilities			
Lease liabilities	18	282,751	-
Total non-current liabilities		282,751	-
Total liabilities		7,079,976	4,951,921
Net liabilities		(1,673,636)	(1,324,423)
Equity			
Issued capital	19	21,736,694	16,132,144
Reserves	20	(14,247,955)	(16,158,477)
Accumulated losses		(9,162,375)	(1,298,090)
Total deficiency in equity		(1,673,636)	(1,324,423)

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

Candy Club Holdings Limited
Consolidated statement of changes in equity
For the period ended 31 December 2019

Consolidated	**Issued capital $**	**Reserves $**	**Accumulated losses $**	**Total deficiency in equity $**
Balance at 24 October 2018	-	-	-	-
Loss after income tax expense for the period	-	-	(1,298,090)	(1,298,090)
Other comprehensive loss for the period, net of tax	-	(87,122)	-	(87,122)
Total comprehensive loss for the period	-	(87,122)	(1,298,090)	(1,385,212)
Commonly controlled reserve recognised on acquisition of Candy Club LLC	-	(17,197,977)	-	(17,197,977)
Share based payment reserve transferred on acquisition of Candy Club LLC	-	1,083,131	-	1,083,131
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 19)	16,132,144	-	-	16,132,144
Share based payments (note 20)	-	43,491	-	43,491
Balance at 31 December 2018	16,132,144	(16,158,477)	(1,298,090)	(1,324,423)

Consolidated	**Issued capital $**	**Reserves $**	**Accumulated losses $**	**Total deficiency in equity $**
Balance at 1 January 2019	16,132,144	(16,158,477)	(1,298,090)	(1,324,423)
Impact of adoption of AASB 16 - restated balance at 1 January 2019	-	-	(19,323)	(19,323)
Balance at 1 January 2019 - restated	16,132,144	(16,158,477)	(1,317,413)	(1,343,746)
Loss after income tax expense for the period	-	-	(7,844,962)	(7,844,962)
Other comprehensive loss for the period, net of tax	-	(26,247)	-	(26,247)
Total comprehensive loss for the period	-	(26,247)	(7,844,962)	(7,871,209)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 19)	5,604,550	-	-	5,604,550
Share based payments (note 20)	-	1,936,769	-	1,936,769
Balance at 31 December 2019	21,736,694	(14,247,955)	(9,162,375)	(1,673,636)

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

Candy Club Holdings Limited
Consolidated statement of cash flows
For the period ended 31 December 2019

	Note	Consolidated 2019 $	Consolidated 24 Oct 2018 to 31 Dec 2018 $
Cash flows from operating activities			
Receipts from customers		6,412,410	1,044,014
Payments to suppliers and employees		(15,476,057)	(2,059,738)
		(9,063,647)	(1,015,724)
Interest received		268	15
Other revenue		29,622	-
Interest and other finance costs paid		(241,548)	-
Net cash (used in) operating activities	31	(9,275,305)	(1,015,709)
Cash flows from investing activities			
Payments for property, plant and equipment		(29,678)	(7,270)
Payments for intangibles		(77,278)	-
Cash acquired from commonly controlled acquisition		-	485,727
Proceeds from release of security deposits		40,000	-
Net cash from/(used in) investing activities		(66,956)	478,457
Cash flows from financing activities			
Proceeds from issue of shares		6,938,392	200
Proceeds from borrowings		2,578,707	567,192
Share issue transaction costs		(649,801)	(29,206)
Repayment of lease liabilities		(235,745)	-
Funds received ahead of shares issued		1,500,000	-
Net cash from financing activities		10,131,553	538,186
Net increase in cash and cash equivalents		789,292	934
Cash and cash equivalents at the beginning of the financial period		12,496	-
Effects of exchange rate changes on cash and cash equivalents		(26,247)	11,562
Cash and cash equivalents at the end of the financial period		775,541	12,496

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

Note 1. Significant accounting policies

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

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

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

The following Accounting Standards and Interpretations have been adopted by the consolidated entity:

AASB 16 Leases
The consolidated entity has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption
The consolidated entity has adopted AASB 16: Leases retrospectively from 1 January 2019. In accordance with AASB 16.C7 the comparatives for the 2018 reporting period have not been restated.

The consolidated entity has recognised a lease liability and right-of-use asset for all leases recognised as operating leases under AASB 117: Leases where the consolidated entity is the lessee.

There has been no significant change from prior year treatment for leases where the consolidated entity is a lessor.

Lease liabilities are shown at the present value of the remaining lease payments. The consolidated entity's incremental borrowing rate of 7% as at 1 January 2019 has been used to discount the lease payments.

The right-of-use assets which the consolidated entity entered into as a lessee in respect of its office premises was measured at its carrying amount as if AASB 16: Leases had been applied since the commencement date, but discounted using the consolidated entity's weighted average incremental borrowing rate on 1 January 2019.

The right-of-use assets for the remaining leases have been measured and recognised in the statement of financial position as at 1 January 2019 by taking into consideration the lease liability and the deferred rental (that are related to the lease).

The following practical expedients have been used by the consolidated entity in applying AASB 16 for the first time:

- For a portfolio of leases that have reasonably similar characteristics, a single discount rate has been applied.
- Leases that have remaining lease term of less than 12 months as at 1 January 2019 have been accounted for in the same was as short-term leases.
- The use of hindsight to determine lease terms on contracts that have options to extend or terminate.
- Applying AASB 16 to leases previously identified as leases under AASB 117: Leases and Interpretation 4: Determining whether an arrangement contains a lease without reassessing whether they are, or contain, a lease at the date of initial application.
- Not applying AASB 16 to leases previously not identified as containing a lease under AASB 117 and Interpretation 4.

The difference between the undiscounted amount of operating lease commitments at 31 December 2019 of $1,268,252 and the discounted operating lease commitments as at 1 January 2019 of $1,093,168 was $175,084 which is due to discounting the operating lease commitments at the consolidated entity's incremental borrowing rate.

Note 1. Significant accounting policies (continued)

The right of use asset relates solely to the leased office premises occupied by the consolidated in the United States.

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred a loss from ordinary activities of $7,844,962 for the period ended 31 December 2019 (2018: $1,298,090), and had a net working capital deficiency of $2,139,493 (2018: $1,472,456). In addition, the consolidated entity had negative cash from operating activities of $9,275,305 (2018: $1,015,708).

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

- The company successfully completed its business pivot in 2019 from a B2C subscription only model to one that is heavily focused on its B2B business while running its B2C business for maximum return on investment. In 2019 the B2B business grew during its ‘proof of concept stage’ with an impressive and growing list of customers, big and small;
- The company’s products are selling extremely well at retail as evidenced by the company’s top customers reordering at a 90% rate on a monthly/quarterly basis and is on track to scale revenues significantly in 2020;
- Improving gross margins, an improved financial position and a lean operating structure have the company poised to eliminate cash burn throughout 2020 as it targets profitability later this year;
- The consolidated entity has received term sheets from accounts receivable and purchase order lenders to provide additional working capital to the business based on the value of these assets;
- Since 31 December 2019, the company has issued 55,068,023 fully paid ordinary shares with a value of $3,761,791 to settle various current liabilities;
- Since 31 December 2019, the company has announced that it has received additional convertible bridging finance of US$ 1,250,000 to assist with working capital requirements. The board is in discussions with other parties relating to further funding;
- Since 31 December 2019, the consolidated entity has entered into a non-binding term sheet with an inventory financing lender of up to US $1,500,000; and
- The company has the ability to raise additional capital under its 15% general placement capacity and is currently negotiating with several parties about securing additional equity investment in the company.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report. The board are still reviewing the impact that COVID-19 will have on the consolidated entity. Refer to note 30 for the company' response to date and summary of expected impacts.

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

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

Reporting period

The company was incorporated on 24 October 2018. This comparative information covers the period from that date until 31 December 2018.

Basis of preparation

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

Note 1. Significant accounting policies (continued)

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

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

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 28.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Candy Club Holdings Limited ('company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries for the period then ended. Candy Club Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

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

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

The consolidated entity operates the business of selling candies. During the year it commenced its B2B business and currently manages this business line as part of the overall candy selling business, whereby no discrete financial information between the B2C and B2B lines is maintained other than the revenue generated. The Board being the chief operating decision maker monitors the financial performance and position of the group as a whole and not by the business line. To this end, the group has been assessed as one business segment during the year ended 31 December 2019.

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

Note 1. Significant accounting policies (continued)

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

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

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

Revenue recognition
The consolidated entity recognises revenue as follows:

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

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

Plant and equipment	4-5 years
Computer equipment	2 years

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

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

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

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

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

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

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

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

Note 1. Significant accounting policies (continued)

Contract liabilities
Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

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

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

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

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

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity 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

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

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

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

Note 1. Significant accounting policies (continued)

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

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

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

Issued capital
Ordinary shares are classified as equity.

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

Earnings per share

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

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

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2019. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

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

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

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

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

Note 3. Operating segments

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

The consolidated entity operates the business of selling candies. During the year it commenced its B2B business and currently manages this business line as part of the overall candy selling business, whereby no discrete financial information between the B2C and B2B lines is maintained other than the revenue generated. The Board being the chief operating decision maker monitors the financial performance and position of the group as a whole and not by the business line. To this end, the group has been assessed as one business segment during the year ended 31 December 2019. Refer to note 4 for split of total revenue per business line.

Note 4. Revenue

	Consolidated 2019 $	24 Oct 2018 to 31 Dec 2018 $
Revenue from contracts with customers		
Sales of goods	6,769,098	1,037,442
Other revenue		
Other revenue	29,622	-
Revenue	6,798,720	1,037,442

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

	Consolidated 2019 $	24 Oct 2018 to 31 Dec 2018 $
Major revenue streams		
Sale of goods - business to customer	5,192,659	950,168
Sale of goods - business to business	1,576,439	87,274
	6,769,098	1,037,442
Geographical regions		
United States of America	6,769,098	1,037,442
Timing of revenue recognition		
Goods transferred at a point in time - being when shipped and ownership transfers	6,769,098	1,037,442

Note 5. Other income

	Consolidated 2019 $	24 Oct 2018 to 31 Dec 2018 $
Gain on early termination of lease	123,596	-

Note 6. Expenses

	Consolidated 2019 $	24 Oct 2018 to 31 Dec 2018 $
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	38,519	6,368
Right of use assets	191,478	-
Total depreciation	229,997	6,368
Amortisation		
Intangible assets	26,881	-
Total depreciation and amortisation	256,878	6,368
Finance costs		
Interest and finance charges paid/payable on borrowings	290,481	20,345
Interest and finance charges paid/payable on lease liabilities	61,980	-
Non cash finance charges relating to conversion of short-term debt	279,043	-
Finance costs expensed	631,504	20,345

Note 7. Income tax expense

	Consolidated 2019 $	24 Oct 2018 to 31 Dec 2018 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(7,844,962)	(1,298,090)
Tax at the statutory tax rate of 30%	(2,353,489)	(389,427)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax effect of different tax rates in US	611,460	88,915
US tax losses not recognised	1,927,617	390,178
US state taxes	(498,395)	(110,344)
Tax losses not recognised	285,436	17,344
Non deductible items	27,371	3,334
Income tax expense	-	-

Note 7. Income tax expense (continued)

	Consolidated 2019 $	Consolidated 24 Oct 2018 to 31 Dec 2018 $
Australian tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	960,208	8,753
Potential tax benefit @ 30%	288,062	2,626

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

US tax losses
The company's US subsidiaries have total tax losses valued at $11,449,167 (2018: $7,512,522) have not been recognised as the recovery of this benefit is uncertain. The tax losses are yet to be tested to ensure that they will be able to be utilised by the US subsidiaries after their acquisition by the company.

Note 8. Current assets - trade and other receivables

	Consolidated 2019 $	Consolidated 2018 $
Trade receivables	218,243	56,629
Other receivables	126,627	107,628
BAS receivable	9,733	8,209
	354,603	172,466

Refer to note 22 for information on credit risk. No allowance for credit loss has been recognised as none of the balances are considered impaired.

Note 9. Current assets - inventories

	Consolidated 2019 $	Consolidated 2018 $
Stock on hand - at cost	4,344,441	2,484,762
Less: Provision for impairment	(922,066)	(35,264)
	3,422,375	2,449,498

Note 10. Current assets - other

	Consolidated 2019 $	Consolidated 2018 $
Prepayments	105,213	83,205
Prepaid IPO costs	-	761,800
	105,213	845,005

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

Note 11. Non-current assets - right-of-use assets

	Consolidated 2019 $	Consolidated 2018 $
Land and buildings - right-of-use	393,671	-
Less: Accumulated depreciation	(25,674)	-
	367,997	-
Plant and equipment - right-of-use	231,049	-
	599,046	-

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

Consolidated	Land and buildings $	Plant and equipment $	Total $
Balance at 24 October 2018	-	-	-
Balance at 31 December 2018	-	-	-
Additions	393,671	231,049	624,720
Early termination of lease	(836,520)	-	(836,520)
Recognised on adoption of AASB 16	1,002,324	-	1,002,324
Depreciation expense	(191,478)	-	(191,478)
Balance at 31 December 2019	367,997	231,049	599,046

Note 12. Non-current assets - other

	Consolidated 2019 $	Consolidated 2018 $
Security deposits	35,684	75,684

Note 13. Current liabilities - trade and other payables

	Consolidated	
	2019	**2018**
	$	**$**
Trade payables	2,040,282	2,826,440
Funds received ahead of shares issued *	1,500,000	-
Interest payable **	120,383	9,470
Other payables	581,796	1,363,393
	4,242,461	4,199,303

Refer to note 22 for further information on financial instruments.

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

* This amount was reclassified as issued capital subsequent to 31 December 2019 as outlined in note 30. The shares were issued to a member of key management personnel. Refer to note 27.

** Represents accrued interest payable on bridging finance, refer to note 15. The majority of the interest payable was to key management personnel refer to note 27.

Note 14. Current liabilities - contract liabilities

	Consolidated	
	2019	**2018**
	$	**$**
Contract liabilities	-	174,551

Note 15. Current liabilities - borrowings

	Consolidated	
	2019	**2018**
	$	**$**
Bridging finance - from director related entities	1,622,407	578,067
Loan facility - CircleUp	611,614	-
	2,234,021	578,067

Refer to note 22 for further information on financial instruments.

The bridging finance includes a balance of $1,500,000 with interest payable at 2% per month and lines fees of 3% on the principle sum. Interest is payable on the remainder of the balance at 10% per annum accruing daily. An amount of $87,005 has been offset against this amount representing the fair value of the options as part of the amortised cost calculation. This amount has been reclassified to issued capital post 31 December 2019. Refer to note 30. These loans may be converted into fully paid ordinary shares at the discretion of the lender at share price of $0.08 subject to shareholder approval.

CircleUp provided a revolving line of credit to Candy Club based on the company's Direct-To-Consumer (DTC) cash flows. An initial Maximum Facility Amount of US$1,000,000 was approved, and CircleUp will seek to re-evaluate the maximum credit limit on demand as Candy Club grows. Initial availability was US$700,000 based on DTC sales. Interest accrues daily as simple interest (non-compounding) on the principal balance outstanding at a rate of Prime + 5%. During the twelve months ended 30 June 2019, Candy Club paid interest of US$42,509 and has an outstanding principle balance of US$428,496 as of 31 December 2019. The loan is secured against the assets of the consolidated entity's US subsidiaries. At 31 December 2019 these assets had a carrying value of $5,000,247. There have been no defaults on this loan during the year.

Note 16. Current liabilities - lease liabilities

	Consolidated 2019 $	Consolidated 2018 $
Lease liability	249,376	-

Refer to note 22 for further information on financial instruments.

Note 17. Current liabilities - provisions

	Consolidated 2019 $	Consolidated 2018 $
Legal claims	71,367	-

Refer to note 25 for further details.

Legal claims
The provision represents a claim by a customer of the computer retailing division. This claim is expected to be settled in the next financial year and the outcome of this claim is not expected to exceed the amount provided for, based on independent legal advice.

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

Consolidated - 2019	Legal claims $
Carrying amount at the start of the period	-
Additional provisions recognised	71,367
Carrying amount at the end of the period	71,367

Note 18. Non-current liabilities - lease liabilities

	Consolidated 2019 $	Consolidated 2018 $
Lease liability	282,751	-

Refer to note 22 for further information on financial instruments.

Note 19. Equity - issued capital

	Consolidated 2019 Shares	Consolidated 2018 Shares	Consolidated 2019 $	Consolidated 2018 $
Ordinary shares - fully paid	174,911,079	106,726,399	21,736,694	16,132,144

Note 19. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	24 October 2018	-		-
Incorporation founder shares issued	24 October 2018	20,001	$0.0100	200
Investment in Candy Club Holdings Inc	12 November 2018	75,303,017	$0.1465	11,031,892
Conversion of debt	13 November 2018	29,488,494	$0.1634	4,818,420
Settlement of liabilities	28 November 2018	1,914,887	$0.1557	298,148
Cost of capital raising		-	$0.0000	(16,516)
Balance	31 December 2018	106,726,399		16,132,144
IPO shares	19 February 2019	25,120,020	$0.2000	5,024,004
Shares issued to lead manager	19 February 2019	7,244,312	$0.2000	1,448,862
Conversion of debt	5 August 2019	9,832,832	$0.0800	786,627
Rights issue	5 August 2019	4,804,856	$0.0800	384,388
Rights issue	2 October 2019	19,125,000	$0.0800	1,530,000
Settlement of trade creditors	7 November 2019	825,000	$0.0800	66,000
Conversion of debt	7 November 2019	1,232,660	$0.0327	40,308
Cost of capital raising		-	$0.0000	(3,675,639)
Balance	31 December 2019	174,911,079		21,736,694

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

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

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

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

Note 20. Equity - reserves

	Consolidated 2019 $	Consolidated 2018 $
Foreign currency reserve	(113,369)	(87,122)
Share-based payments reserve	3,063,391	1,126,622
Commonly controlled reserve	(17,197,977)	(17,197,977)
	(14,247,955)	(16,158,477)

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

Note 20. Equity - reserves (continued)

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

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

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

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

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

Consolidated	Foreign currency $	Share based payments $	Commonly controlled $	Total $
Balance at 24 October 2018	-	-	-	-
Foreign currency translation	(87,122)	-	-	(87,122)
Commonly controlled acquisition	-	1,083,131	(17,197,977)	(16,114,846)
Share based payments	-	43,491	-	43,491
Balance at 31 December 2018	(87,122)	1,126,622	(17,197,977)	(16,158,477)
Foreign currency translation	(26,247)	-	-	(26,247)
Share based payments	-	1,936,769	-	1,936,769
Balance at 31 December 2019	(113,369)	3,063,391	(17,197,977)	(14,247,955)

Note 21. Equity - dividends

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

Note 22. Financial instruments

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

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

Note 22. Financial instruments (continued)

Market risk

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

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

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

	Assets		Liabilities	
Consolidated	**2019 $**	**2018 $**	**2019 $**	**2018 $**
US dollars	4,251,639	2,850,047	3,651,263	4,584,082

	AUD strengthened			AUD weakened		
Consolidated - 2019	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
US dollars	20%	-	120,075	20%	-	(120,075)

	AUD strengthened			AUD weakened		
Consolidated - 2018	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
US dollars	10%	-	(173,403)	10%	-	173,403

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

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

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity is exposed to credit risk in relation to it business to business customers, which represented 23.29% (2018: 8.41%) of revenue from customers. The majority of its revenue for the period came from business to customer sales where payment is received before delivery is made. The total trade receivable balance at 31 December 2019 was $218,243 (2018: $56,629). There was no impairment of trade receivables during the period. Average credit terms are 30 days.

The consolidated entity credit risk by country is summarised below:-

Note 22. Financial instruments (continued)

	Consolidated 2019 $	Consolidated 2018 $
Australia	9,733	8,209
United States	344,870	164,257
	354,603	172,466

Liquidity risk

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

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

Refer to going concern disclosures in Note 1.

Remaining contractual maturities

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

Consolidated - 2019	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	2,040,282	-	-	-	2,040,282
Other payables	-	702,179	-	-	-	702,179
Funds received ahead of shares issued	-	1,500,000	-	-	-	1,500,000
Interest-bearing - fixed rate						
Bridging loans	10.00%	122,614	-	-	-	122,614
Bridging loans	24.00%	1,500,000	-	-	-	1,500,000
Loan facility	9.75%	611,614	-	-	-	611,614
Total non-derivatives		6,476,689	-	-	-	6,476,689

Consolidated - 2018	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	2,826,440	-	-	-	2,826,440
Other payables	-	1,363,393	-	-	-	1,363,393
Interest-bearing - variable						
Bridging finance	20.00%	578,067	-	-	-	578,067
Total non-derivatives		4,767,900	-	-	-	4,767,900

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

Note 22. Financial instruments (continued)

Measurement of financial assets

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

	Consolidated 2019 $	Consolidated 2018 $
Financial assets		
Financial assets measured at amortised cost		
Cash and cash equivalents	775,541	12,496
Trade and other receivables	344,870	164,257
Total financial assets	1,120,411	176,753

	Consolidated 2019 $	Consolidated 2018 $
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	4,242,461	4,199,303
Borrowings	2,234,021	578,067
Total financial liabilities	6,476,482	4,777,370

Note 23. Key management personnel disclosures

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

	Consolidated 2019 $	Consolidated 24 Oct 2018 to 31 Dec 2018 $
Short-term employee benefits	476,694	76,190
Post-employment benefits	7,270	-
Share-based payments	318,702	12,993
	802,666	89,183

Note 24. Remuneration of auditors

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

	Consolidated 2019 $	Consolidated 24 Oct 2018 to 31 Dec 2018 $
Audit services - HLB Mann Judd (Vic) Partnership		
Audit or review of the financial statements	40,450	26,000
Other services - related parties of HLB Mann Judd (Vic) Partnership		
Tax due diligence	-	3,500
Independent accountant's report	-	27,500
	-	31,000
	40,450	57,000
Audit services - network firms		
Audit or review of the financial statements	96,389	66,500

Note 25. Contingent liabilities/assets

The consolidated entity is currently defending a litigation claim brought against the consolidated entity by a former employee in relation to their past employment. The consolidated entity has received legal advice that it has a strong case and has instructed its legal counsel settle matter for a specified amount for which it has been accrued for. The matter is expected to settle within the next 12 months. In the event that the matter is settled for an amount different to that accrued refer to note 17, the consolidated entity may be exposed to a contingent asset/liability.

The consolidated entity does not have any other contingencies.

Note 26. Commitments

	Consolidated 2019 $	Consolidated 2018 $
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	264,836
One to five years	-	1,003,416
	-	1,268,252

The consolidated entity's lease obligations are now recorded in the statement of financial after the adoption of the AASB 16 Leases.

Note 27. Related party transactions

Parent entity
Candy Club Holdings Limited is the parent entity.

Note 27. Related party transactions (continued)

Subsidiaries
Interests in subsidiaries are set out in note 29.

Key management personnel
Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

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

	Consolidated	
	2019 $	24 Oct 2018 to 31 Dec 2018 $
Other expenses:		
Finances costs to key management personnel and their related entities.	159,119	20,345

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

	Consolidated	
	2019 $	2018 $
Current payables:		
Other payables to key management personnel	274,225	574,703
Interest payable to key management personnel and their related entities	117,632	9,470
Funds received ahead of shares issued	1,500,000	-

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

	Consolidated	
	2019 $	2018 $
Current borrowings:		
Loans from key management personnel and their related entities *	1,622,407	578,067

* The bridging finance includes a balance of $1,500,000 with interest payable at 2% per month. Interest is payable on the remainder of balance at 10% accruing daily. An amount of $87,005 has been offset against this amount representing the fair value of the options which has not been issued at 31 December 2019, which related to this bridging finance.

Note 27. Related party transactions (continued)

	Consolidated 2019 $	Consolidated 2018 $
The movement in the loans from key management personnel and their related entities are summarised as follows		
Opening balance	578,067	-
New loans and accrued interest during the year	2,545,160	578,067
Conversion of loans into equity during the year	(788,159)	-
Fair value of options offset against carrying value of the loans	(413,637)	-
Repayment of loan	(578,067)	-
Non cash interest	279,043	-
	1,622,407	578,067

Note 28. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent 2019 $	Parent 24 Oct 2018 to 31 Dec 2018 $
Loss after income tax	(26,317,368)	(57,812)
Total comprehensive loss	(26,317,368)	(57,812)

Statement of financial position

	Parent 2019 $	Parent 2018 $
Total current assets	406,092	777,453
Total assets	406,092	16,305,725
Total current liabilities	3,428,713	231,392
Total liabilities	3,428,713	231,392
Equity		
Issued capital	21,807,919	16,132,145
Share-based payments reserve	1,544,641	-
Accumulated losses	(26,375,181)	(57,812)
Total equity/(deficiency)	(3,022,621)	16,074,333

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2019 and 31 December 2018.

Note 28. Parent entity information (continued)

Contingent liabilities
The parent entity had no contingent liabilities as at 31 December 2019 and 31 December 2018.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2019 and 31 December 2018.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 29. Interests in subsidiaries

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

		Ownership interest	
Name	Principal place of business / Country of incorporation	2019 %	2018 %
Candy Club Holdings Inc.	USA	100.00%	100.00%
Candy Club LLC	USA	100.00%	100.00%

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

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

Note 29. Interests in subsidiaries (continued)

	Other reserve
The other reserves recognised in relation to the common control acquisition has the following components	
Net liabilities acquired net of options reserve	6,166,085
Value of consideration shares (Note 17)	11,031,892
Total reserve recognised (Note 18)	17,197,977

Note 30. Events after the reporting period

On 17 January 2020, the company issued 55,068,023 fully paid ordinary shares with a value of $3,761,791 to settle various current liabilities. In addition the company issued 27,774,939 listed options (ASX : CLBO). The options have an exercise price of 10 cents and are exercisable at any time expiring on 31 May 2023.

On 17 January 2020, the company has 18,700,000 unlisted options as remuneration to key management personnel. These options have a value of $352,093.

On 29 January 2020, the company announced that the company had received convertible debt totalling US$600,000 from directors and major shareholders. Interest is payable 1% per month and the balance is convertible into shares $0.125 per share at the holder's option.

On 18 March 2020, the company announced that it had entered into a non-binding term sheet with an inventory financing lender of up to US $1.5 million.

On 18 March 2020, the company announced that it has entered into additional bridging loans with directors totalling US $650,000. The loans will carry a 12% annual interest rate and can be converted into shares at conversion price of $0.04 per shares. A listed Candy Club Holding Option (ASX: CLBO) will be included for each converted share.

During the week beginning 16 March 2020, the US, state and local governments announced a series of measures aimed at preventing the spread of COVID-19 (“measures”), which had the subsequent effect of impacting the state of the US economy (i.e. impact on supply chain, customers, availability of finance, consumer confidence, etc.).

In addressing and implementing the necessary changes to ensure Candy Club comply with these measures, the Board has agreed to implement, amongst others, the following:

- Enacting Candy Club’s stated business continuity plan of enabling all Company employees, including head office and sales staff, to work remotely, until further notice;
- To date, no business interruptions have occurred in either the Company’s warehousing and distribution centre operations, located primarily in Indiana, nor in its supply chain of core product or packaging vendors, as we and our facility are classified as a food manufacturer and currently considered “essential critical business infrastructure”; given the fluidity of the situation this is subject to change in the future;
- There are segments of the Company’s business that will be negatively impacted by these events, such as sales to retail stores and hospitality outlets, and segments that may not be negatively impacted and could actually see an uptick as a result of these measures, including e-commerce and grocery customers. It is still too early to tell how 2020 revenue, earnings and cash flow will be impacted by the measures required by COVID-19; and
- Requested management review and revise Candy Club’s 2020 operating plans, including operating expense management solutions and associated cashflow budget, which is still on-going.

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

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 31. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2019 $	24 Oct 2018 to 31 Dec 2018 $
Loss after income tax expense for the period	(7,844,962)	(1,298,090)
Adjustments for:		
Depreciation and amortisation	256,878	6,368
Share-based payments	746,733	43,491
Accrued interest	110,912	20,345
Settlement of operating liabilities through issue of shares	66,000	-
Non-cash finance costs	279,043	-
Gain on early termination of lease	(123,596)	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(182,137)	13,835
Increase in inventories	(972,877)	(28,682)
Increase in other operating assets	(22,008)	(1,276)
Increase/(decrease) in trade and other payables	(1,486,107)	235,563
Increase in other provisions	71,367	-
Decrease in other operating liabilities	(174,551)	(7,263)
Net cash used in operating activities	(9,275,305)	(1,015,709)

Note 32. Non-cash investing and financing activities

During the year, the company issued 19,134,804 fully paid ordinary shares settling liabilities valued at $2,341,780.

Note 33. Changes in liabilities arising from financing activities

Consolidated	Leases $	Loan Facility $	Bridging loans $	Total $
Balance at 24 October 2018	-	-	-	-
Net cash from financing activities	-	-	567,192	567,192
Interest accrued	-	-	10,875	10,875
Balance at 31 December 2018	-	-	578,067	578,067
Net cash from/(used in) financing activities	(235,745)	611,614	1,967,093	2,342,962
Recognised on adoption of AASB 16	1,097,102	-	-	1,097,102
Additions	393,671	-	-	393,671
Early termination of lease	(722,901)	-	-	(722,901)
Other changes	-	-	(922,753)	(922,753)
Balance at 31 December 2019	532,127	611,614	1,622,407	2,766,148

Note 34. Earnings per share

	Consolidated 2019 $	Consolidated 24 Oct 2018 to 31 Dec 2018 $
Loss after income tax attributable to the owners of Candy Club Holdings Limited	(7,844,962)	(1,298,090)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	145,612,717	74,925,607
Weighted average number of ordinary shares used in calculating diluted earnings per share	145,612,717	74,925,607
	Cents	**Cents**
Basic earnings per share	(5.39)	(1.73)
Diluted earnings per share	(5.39)	(1.73)

Note 35. Share-based payments

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

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

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

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

The terms of options are as follows:

2019

	Balance at the start of the period	Granted	Granted on acquisition of CCH	Balance at the end of the period
	2,357,284	2,738,165	-	5,095,449
	2,357,284	2,738,165	-	5,095,449
Weighted average exercise price	$0.5479	$0.1504	$0.0000	$0.3343

Note 35. Share-based payments (continued)

2018

	Balance at the start of the period	Granted	Granted on acquisition of CCH	Balance at the end of the period
	-	87,668	2,269,616	2,357,284
	-	87,668	2,269,616	2,357,284
Weighted average exercise price	$0.0000	$1.6577	$0.5050	$0.5479

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

The weighted average remaining contractual life of options outstanding at the end of the financial period was 2.54 years (2018: 2.36 years).

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

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
03/07/2019	27/03/2023	$0.1784	$0.2140	5.00%	-	5.00%	$0.069
14/11/2019	23/10/2023	$0.1056	$0.0990	5.00%	-	5.00%	$0.048

Candy Club Holdings Limited
Directors' declaration
31 December 2019

In the directors' opinion:

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

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

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial period ended on that date; and

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

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

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

On behalf of the directors

Keith Cohn
Executive Director

31 March 2020

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

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Candy Club Holdings Limited ("the Company") and its controlled entities ("the Group"), which comprises the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

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

Material Uncertainty Related to Going Concern

We draw attention to the Going Concern note as contained in Note 1 of the financial report, which indicates that the Group incurred a net loss of $7,844,962 (2018: loss of $1,298,090) during the year ended 31 December 2019 and, as of that date, the current liabilities exceeded its current assets by $2,139,493 (2018: $1,472,456). In addition, the Group's net liabilities position as at 31 December 2019 was $1,673,636 (2018: 1,324,423). As stated in the Going Concern note as contained in Note 1 of the financial report, these events or conditions, along with other matters as set forth in the Going Concern note as contained in Note 1 of the financial report, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Emphasis of Matter - Effects of COVID-19

We draw attention to Note 30 Events after the reporting period to the financial statements, which describes the uncertainties and possible effects on the Group arising from its management of the on-going issues related to COVID. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key Audit Matter	How our audit addressed the key audit matter
Inventory Refer to note 9 - Inventories	
The Group's inventory balance of $3,422,375 is significant to the financial statements and has increased by $972,877 from the prior year, after allowing for an increase in provision of $886,802). The Group's inventory predominately includes packaged candy canisters and raw materials. Inventory is required to be recorded at the lower of cost and net realisable value applying the weighted average cost method. The valuation of inventory involves significant judgement by management as value depends on the age and type of packaged candy canisters and raw materials.	Our audit procedures included: • A physical verification of inventory at the material location within the Group; • Performance of cut-off testing for both inwards and outwards goods around the year end date; • A review of subsequent product sales to ensure inventory was valued at the lower of cost and net realisable value, the aging and condition of the inventory. • We evaluated management's judgement and assumptions in determining the valuation of the inventory at balance date; and • We assessed management's judgements in relation to the need for provisioning against the value of inventory as well as the related calculations. We also considered the adequacy of disclosures in relation to inventory in the notes to the financial statements.

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

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 12 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of Candy Club Holdings Limited for the year ended 31 December 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Jude Lau
Partner

Melbourne
31 March 2020

Candy Club Holdings Limited
Shareholder information
31 December 2019

The shareholder information set out below was applicable as at 4 March 2020.

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

	Number of holders of ordinary shares	Number of ordinary shares
1 to 1,000	6	1,225
1,001 to 5,000	18	62,463
5,001 to 10,000	69	633,158
10,001 to 100,000	217	10,160,199
100,001 and over	163	219,122,057
	473	229,979,102
Holding less than a marketable parcel	39	-

Equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
JCKB PTY LTD	49,300,514	21.44
CITICORP NOMINEES PTY LIMITED	20,043,465	8.72
INSTANZ NOMINEES PTY LTD (HEARTS A/C)	12,562,500	5.46
CHI KAN TANG	12,498,117	5.43
SABONE INTERNET INVESTMENTS LLC	9,457,221	4.11
JAMES CLIVE KNOX BAILLIEU	8,712,910	3.79
BEDWELL PTY LTD (BEDWELL DISCRETIONARY A/C)	5,506,509	2.39
KEC VENTURES II LP	5,322,351	2.31
10 BOLIVIANOS PTY LTD	4,845,734	2.11
SKYMAKER PTY LTD	3,450,300	1.50
HAMILTON HAWKES PTY LTD (WHITCOMBE FAMILY A/C)	3,305,000	1.44
MUTUAL TRUST PTY LTD	3,100,000	1.35
CROSSCUT VENTURES 3 LP	2,804,870	1.22
CHRIS BOLLENBACH	2,634,241	1.15
EQUITAS NOMINEES PTY LIMITED (PB-600687 A/C)	2,572,250	1.12
T G F HOLDINGS (QLD) PTY LTD (T FORD SUPERANNUATION A/C)	2,505,982	1.09
MR MICHAEL JOHN FIMERI	2,390,500	1.04
CERDIK	2,352,436	1.02
MR DEAN RODNEY RYAN & MRS JULIA LEONIE YAN (DEAN RYAN SUPER A/C)	2,204,995	0.96
BUMBLETON PTY LTD (WILLIAM COATS S/F A/C)	2,179,026	0.95
	157,748,921	68.60

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	25,795,449	54

Candy Club Holdings Limited
Shareholder information
31 December 2019

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
James Baillieu and JCKB Pty Ltd	58,013,424	25.23
Chi Kan Tang	29,513,501	12.83
Instanz Nominees Pty Ltd ATF Hearts A/C and associates	13,598,575	5.91

Voting rights

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

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

There are no other classes of equity securities.