

Top Shelf International Holdings Ltd
Appendix 4D
Half-year report

1. Company details

Name of entity: Top Shelf International Holdings Ltd
ABN: 22 164 175 535
Reporting period: For the half-year ended 31 December 2020
Previous period: For the half-year ended 31 December 2019

2. Results for announcement to the market

Statutory financial results	Half year ended 31 Dec 2020 (\$'000)	Half year ended 31 Dec 2019 (\$'000)	Mvmt (\$'000)	Up / (down) %
Revenue	7,284	2,810	4,474	159.2%
Gross profit	1,577	563	1,014	179.9%
EBITDA	(7,080)	(1,580)	(5,500)	(348.2)%
Loss after tax	(6,729)	(1,514)	(5,216)	(344.7)%

Pro forma financial results	Half year ended 31 Dec 2020 (\$'000)	Half year ended 31 Dec 2019 (\$'000)	Mvmt (\$'000)	Up / (down) %
Revenue	7,284	2,810	4,474	159.2%
Gross profit	1,577	563	1,014	179.9%
EBITDA	(3,609)	(1,580)	(2,029)	(128.4)%
Loss after tax	(3,063)	(1,514)	(1,550)	(102.4)%

The pro forma financial results have been calculated to exclude certain items described below. This presentation form of the financial results is more clearly representative of the underlying financial results (noting that this financial information has not been prepared in accordance with Australian Accounting Standards or reviewed in accordance with Australian Auditing Standards).

The adjustments applied to the statutory financial results to derive the pro forma financial results reflect the exclusion of:

- (1) Initial public offering (IPO) transaction costs including joint lead manager and other adviser fees.
- (2) Additional accounting and audit fees associated with the historical audit of the Company's 30 June 2018, 2019 and 2020 annual accounts in preparation for the Company's IPO.
- (3) Share based payments expense, as a non-cash cost, incurred in relation to the Company's initial option plan commenced in October 2020 (as summarised in the Company's prospectus dated 12 November 2020) and ordinary shares issued to select directors at nil cash consideration prior to the IPO.
- (4) A cessation fee in relation to the early termination of a superseded financing facility arrangement with Longreach Credit in December 2020.
- (5) The income tax effect of adjustments 1, 2 and 4 summarised above (impacting "Loss after tax" only).

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The following table reconciles the statutory results to the pro forma results for the half year period ended 31 December 2020 and previous corresponding period ended 31 December 2019:

	Half year ended 31 Dec 2020		Half year ended 31 Dec 2019	
	EBITDA (\$'000)	Loss after tax (\$'000)	EBITDA (\$'000)	Loss after tax (\$'000)
Statutory	(7,080)	(6,729)	(1,580)	(1,514)
IPO transaction costs	1,194	1,194	-	-
Other costs associated with IPO preparation	552	552	-	-
Share based payments expense	1,726	1,726		
Existing financing facility cessation fee	-	930	-	-
Income tax effect	-	(736)	-	-
Pro forma	(3,609)	(3,063)	(1,580)	(1,514)

Comments

Refer to the Directors' report within the attached interim report of Top Shelf International Holdings Ltd for commentary on results for the half-year.

3. Net tangible assets

	31 December 2020	30 June 2020
	\$	\$
Net tangible assets per ordinary security	0.78	0.38

Net tangible assets includes right of use assets and the corresponding lease liabilities. Intangible and deferred tax assets have been excluded from the net tangible assets per ordinary share calculation.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

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7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of Top Shelf International Holdings Ltd for the half-year ended 31 December 2020 is attached.

Top Shelf International Holdings Ltd

ABN 22 164 175 535

Interim Financial Report - 31 December 2020

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31 December 2020

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Top Shelf International Holdings Ltd
Directors' report
31 December 2020

The directors present their report, together with the interim financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'Top Shelf') consisting of Top Shelf International Holdings Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

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

Adem Karafili - Chairman

Drew Fairchild - Chief Executive Officer

Peter Cudlipp

Ken Poutakidis

Bruce Peterson (resigned effective 23 July 2020)

Michael East (appointed effective 15 September 2020)

Review of operations

Top Shelf is a Melbourne based producer and marketer of high-quality Australian spirit-based beverage brands, with an ambition to create high quality, authentic Aussie spirit brands, where each brand in its own distinctive way embodies an unmistakably Aussie taste, attitude and social experience.

The Group has expertise in the development and production of distilled spirits, access to research and development expertise and modern, fully commissioned and operational fermentation, distillation and packaging facilities in Campbellfield, Victoria. In addition to distilling and manufacturing its own range of spirituous products, Top Shelf also provides canning, bottling and packaging services to a range of customers. The Group operates a farm near Bowen in Queensland where it is planting agave plants to support an Australian Agave spirits business at scale.

Key operational achievements

The key operational achievements of the Company during FY21 1H included:

- Completion of a successful initial public offering ('IPO') and listing on the Australian Securities Exchange ('ASX') in December 2020 to raise \$47.2 million including a primary raise of \$35.0 million.
- The Company's flagship NED Whisky national ranging with Independent Brands Australia (IBA) from September 2020.
- Continued investment in NED Whisky inventory with approximately 950,000 litres on hand (litres of whisky on hand at 40.0% ABV) (30 June 2020: 545,000 litres) or the equivalent of \$54.3 million in net sales at maturation (the litres of whisky on hand multiplied by the anticipated whole sales value per 700 mL bottle of \$40) (30 June 2020: \$31.2 million).
- Additional capital equipment installed at the Campbellfield distillery and expansion of storage capacity at the Somerton maturation facility (\$0.7 million). The capital investment at the distillery has completed Top Shelf's investment to double whisky production with the commissioning of a second whisky lauter tun.
- The launch of the Grainshaker Vodka brand on 27 October 2020 with Grainshaker Vodka available for sale in over 200 on-premise venues and being listed with independent distribution networks: Australian Liquor Marketers, Paramount and Festival by 31 December 2020.
- Finalisation of the Eden Lassie agave farm acquisition in December 2020. As at 31 December 2020, 165,000 agave plants were planted at the Eden Lassie agave farm (30 June 2020: 50,000 plants).

Financial results

Revenue and gross margin

In FY21 1H Top Shelf reported revenue of \$7.3 million, an increase of \$4.5 million or 159% on the prior comparative period, FY20 1H. The revenue growth was attributable to branded product sales (FY21 1H: \$4.0 million) and third party contract packaging services (FY21 1H: \$3.3 million).

Branded sales growth in FY21 1H reflect the national ranging of NED Whisky with IBA and launch of the Grainshaker Vodka brand. Third party contract packaging services were fully operational in FY21 1H after being commissioned in October 2019 and continued to build a portfolio of national and boutique beverage customers.

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In FY21 1H the Company reported gross profit of \$1.6 million and a gross profit margin of 21.6%, an increase of \$1.0 million and 1.6% respectively in absolute terms on the prior comparative period.

Statutory and pro forma results:

On a statutory basis, the Company reported an EBITDA in FY21 1H of \$(7.1) million, an increase of \$5.5 million and a loss after income tax of \$6.7 million, an increase of \$5.2 million, on the prior comparative period.

The pro forma financial results have been calculated to exclude IPO transaction costs, additional costs incurred by the Company in preparation for the IPO, share based payments expense as a non-cash cost, and a cessation fee incurred upon the early termination of a financing facility with Longreach Credit net of tax where appropriate.

On a pro forma basis, the Company reported an EBITDA in FY21 1H of \$(3.6) million, an increase of \$2.0 million and a loss after income tax of \$3.1 million, an increase of \$1.6 million, on the prior comparative period.

The pro forma financial results reflect:

- the reported gross margin contribution;
- Top Shelf's continued development of the NED Whisky and Grainshaker Vodka brands with sales & marketing and sales labour expenditure of \$2.1 million; and
- the ongoing investment in scalable resources and infrastructure required to support the revenue growth trajectory of the Company.

Financial position

At 31 December 2020, the Company reported a net tangible asset position of \$38.6 million (net assets excluding intangible and deferred tax assets) with a cash balance of \$16.1 million.

The Company executed a secured financing facility agreement with Longreach Credit in December 2020 with a facility limit of \$15.0 million by 30 June 2021. As at 31 December 2020, the facility was drawn to \$7.0 million. The preexisting financing facility with Longreach Credit was settled with the funds of the IPO.

In addition to available cash funds of \$16.1 million as at 31 December 2020, the Company will be able to draw an additional \$8.0 million between 1 January 2021 and 30 June 2021 from the secured financing facility reflecting total available funds of \$24.1 million.

Non-IFRS financial information

The Directors use certain measures to manage and report on Top Shelf that are not recognised under Australian Accounting Standards (AAS) or International Financial Reporting Standards (IFRS). These measures are collectively referred to as non-IFRS financial measures under Regulatory Guide 230 Disclosing non-IFRS financial information published by ASIC. These non-IFRS financial measures do not have a prescribed meaning or standard definition under AAS or IFRS. The non-IFRS measures should not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS.

The principal non-IFRS financial measure that is referred to in this Directors' Report is EBITDA, which represents earnings or losses before net finance costs, income tax, depreciation and amortisation. The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group. Other non-IFRS measures referred to in this Directors' Report include the pro forma financial results.

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

	Half year ended 31 Dec 2020 (\$'000)	Half year ended 31 Dec 2019 (\$'000)
Loss after tax	(6,729)	(1,514)
Income tax benefit	(2,752)	(1,064)
Finance costs	2,028	778
Earnings before interest & taxation (EBIT)	(7,453)	(1,800)
Depreciation & amortisation	373	220
Earnings before interest, taxation and depreciation & amortisation (EBITDA)	(7,080)	(1,580)

Pro forma financial results referred to in this Directors' Report have been calculated to exclude certain items described below. This has been done to more clearly represent the underlying financial results (noting that this financial information has not been prepared in accordance with AAS or reviewed in accordance with Australian Auditing Standards).

The adjustments applied to the statutory financial results to derive the pro forma financial results reflect the exclusion of:

- (1) Initial public offering (IPO) transaction costs including joint lead manager and other adviser fees.
- (2) Accounting and audit fees associated with the historical audit of the Company's 30 June 2018, 2019 and 2020 annual accounts in preparation for the Company's IPO.
- (3) Share based payments expense, as a non-cash cost, incurred in relation to the Company's initial option plan commenced in October 2020 (as summarised in the Company's prospectus dated 12 November 2020) and ordinary shares issued to select directors at nil cash consideration prior to the IPO.
- (4) A cessation fee in relation to the early termination of a financing facility arrangement with Longreach Credit in December 2020.
- (5) The income tax effect of adjustments 1, 2 and 4 summarised above.

The following table reconciles the statutory results to the pro forma results for the half year period ended 31 December 2020 and previous corresponding period ended 31 December 2019:

	Half year ended 31 Dec 2020		Half year ended 31 Dec 2019	
	EBITDA (\$'000)	Loss after tax (\$'000)	EBITDA (\$'000)	Loss after tax (\$'000)
Statutory	(7,080)	(6,729)	(1,580)	(1,514)
IPO transaction costs	1,194	1,194	-	-
Other costs associated with IPO preparation	552	552	-	-
Shared based payment expense	1,726	1,726	-	-
Existing financing facility cessation fee	-	930	-	-
Income tax effect	-	(736)	-	-
Pro forma	(3,609)	(3,063)	(1,580)	(1,514)

Rounding of amounts

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

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that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Drew Fairchild
Chief Executive Officer



Adem Karafili
Chairman

25 February 2021 Melbourne



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working world**

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Auditor's Independence Declaration to the Directors of Top Shelf International Holdings Ltd

As lead auditor for the review of the half-year financial report of Top Shelf International Holdings Ltd for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Top Shelf International Holdings Ltd and the entities it controlled during the financial period.

Ernst & Young

Brett Croft
Partner
25 February 2021

Top Shelf International Holdings Ltd
Consolidated statement of profit or loss and other comprehensive income

		Consolidated	
	Note	31 Dec 2020	31 Dec 2019
		\$'000	\$'000
Revenue from contracts with customers	7	7,284	2,810
Cost of sales	8	(5,707)	(2,247)
Gross profit		1,577	563
Other income	9	265	157
Expenses			
Sales and marketing expense		(1,763)	(528)
Distribution expense		(249)	(80)
Administration and operating expense		(3,860)	(1,109)
Employee benefits expense		(1,447)	(628)
Share based payments	18	(1,726)	-
Depreciation and amortisation expense		(250)	(175)
Finance costs		(2,028)	(778)
Loss before income tax benefit		(9,481)	(2,578)
Income tax benefit		2,752	1,064
Loss after income tax benefit for the half-year attributable to the owners of Top Shelf International Holdings Ltd		(6,729)	(1,514)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Top Shelf International Holdings Ltd		(6,729)	(1,514)
		Cents	Cents
Basic earnings per share	19	(19.21)	(5.25)
Diluted earnings per share	19	(19.21)	(5.25)

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

Top Shelf International Holdings Ltd
Consolidated statement of financial position

		Consolidated	
	Note	31 Dec 2020	30 Jun 2020
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		16,108	1,656
Trade and other receivables		4,582	2,602
Inventories	10	5,216	3,329
Other assets		4,090	2,486
Total current assets		29,996	10,073
Non-current assets			
Property, plant and equipment		24,305	21,153
Right-of-use assets - land		-	2,822
Right-of-use assets – buildings		4,654	4,714
Intangible assets		1,909	1,603
Biological assets	11	891	729
Deferred tax assets		6,462	2,689
Other assets		200	225
Total non-current assets		38,421	33,935
Total assets		68,417	44,008
Liabilities			
Current liabilities			
Trade and other payables		8,803	5,211
Borrowings	12	-	1,695
Lease liabilities – land		-	2,205
Lease liabilities - buildings		654	616
Provisions		254	220
Total current liabilities		9,711	9,947
Non-current liabilities			
Borrowings	12	6,959	12,807
Lease liabilities - buildings		4,424	4,347
Provisions		304	302
Total non-current liabilities		11,687	17,456
Total liabilities		21,398	27,403
Net assets		47,020	16,605
Equity			
Issued capital	13	62,450	26,621
Reserves	14	1,315	-
Accumulated losses		(16,745)	(10,016)
Total equity		47,020	16,605

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

Top Shelf International Holdings Ltd
Consolidated statement of changes in equity

Consolidated	Issued capital \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019	13,733	2,221	661	(5,185)	11,430
Loss after income tax benefit for the half-year	-	-	-	(1,514)	(1,514)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	-	(1,514)	(1,514)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity	5,309	-	-	-	5,309
Share issue transaction costs, net of tax	(29)	-	-	-	(29)
Transfers	2,882	(2,221)	(661)	-	-
Balance at 31 December 2019	21,895	-	-	(6,699)	15,196

Consolidated	Issued capital \$'000	Other contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	26,621	-	-	(10,016)	16,605
Loss after income tax benefit for the half-year	-	-	-	(6,729)	(6,729)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	-	(6,729)	(6,729)
Opening balance adjustment	30	-	-	-	30
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity (note 13)	37,990	-	-	-	37,990
Share issue transaction costs, net of tax (note 13)	(2,575)	-	-	-	(2,575)
Share based payments	384	-	1,315	-	1,699
Balance at 31 December 2020	62,450	-	1,315	(16,745)	47,020

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

Top Shelf International Holdings Ltd
Consolidated statement of cash flows

		Consolidated	
	Note	31 Dec 2020	31 Dec 2019
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		6,246	2,405
Payments to suppliers and employees (inclusive of GST)		(11,833)	(4,559)
Net cash used in operating activities		(5,587)	(2,154)
Cash flows from investing activities			
Payments for property, plant and equipment		(783)	(3,599)
Payments for intangibles		(334)	(597)
Payments for biological assets		(162)	(5)
Net cash used in investing activities		(1,279)	(4,202)
Cash flows from financing activities			
Proceeds from issue of shares	13	48,152	4,161
Payment of proceeds to selling shareholders	13	(12,200)	-
Share issue transaction costs	13	(4,705)	(29)
Proceeds from borrowings - external financier		-	3,100
Proceeds from borrowings - related parties		2,408	2,162
Repayment of borrowings - external financier	12	(3,000)	(46)
Repayment of borrowings - related parties		(5,016)	(1,357)
Repayment of lease liabilities - land		(2,330)	-
Repayment of lease liabilities - buildings		(19)	(147)
Interest and finance costs on borrowings		(1,687)	(552)
Interest on lease liabilities		(286)	(260)
Net cash from financing activities		21,317	7,032
Net increase in cash and cash equivalents		14,452	676
Cash and cash equivalents at the beginning of the financial half-year period		1,656	94
Cash and cash equivalents at the end of the financial half-year period		16,108	770

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

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
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Note 1. General information

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

Top Shelf International Holdings Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. The Company listed on the Australian Securities Exchange ("ASX") on 10 December 2020.

A description of the nature of the Group's operations is included in the directors' report, which is not part of the financial statements.

Note 2. Statement of compliance

These interim financial statements for the half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 (refer ASX announcement dated 9 December 2020) and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

These interim financial statements were authorised for issue, in accordance with a resolution of directors, on 25 February 2021.

Note 3. Basis of preparation

The interim financial statements have been prepared on the basis of historical cost except for the revaluation of biological assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The principal accounting policies adopted are consistent in the preparation of this Interim Report are consistent with those adopted and disclosed in the Group's annual report for the year ended 30 June 2020, except for the application of the following standard for the first time for the half year period commencing 1 July 2020:

AASB 2 Share Based Payments

The Group implemented a Long Term Incentive Plan in October 2020 to reward employees (including directors and senior executives) with a form of share based payment transaction, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted, using an appropriate valuation model.

The costs of equity-settled transactions are recognised, together with the corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employee become full entitled to the award (the "vesting date"). For cash settled share-based compensation, the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled.

The cumulative expense is recognised for equity-settled transactions at each reporting date until the vesting date reflects the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period and the corresponding amount is represented in the options reserve. At the end of each reporting period, the Group re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of profit and loss.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

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Where the terms of an equity settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification. Where an award is cancelled by the Group or counterparty, any remaining element of the fair value of the award is expensed immediately through the consolidated profit and loss.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share at a point when the Group recognises profit after tax.

Comparative figures are shown in the consolidated statement of financial position for 30 June 2020.

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

Note 4. New or amended Accounting Standards and Interpretations adopted

Several amendments and interpretations apply for the first time effective 29 June 2020, but do not have an impact on the interim financial statements of the Group.

Note 5. Critical accounting judgements, estimates and assumptions

The preparation of 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.

In preparing this interim report, the significant estimates and judgements applied in the Group's accounting policies were consistent with those applied to the consolidated financial statements as at and for the year ended 30 June 2020 with the exception of the application of *AASB 2 Share Based Payments*. The application of *AASB 2 Share Based Payments* to the initial options offer issued in accordance with the terms and conditions of the Group's long term incentive plan is set out in Note 18 with assumptions of the fair value of the options including dividend yield, volatility and the weighted average share price. In relation to the Tranche 2 of the initial options offer, Management has made assumptions relating to the vesting conditions of the options inclusive of service tenure, Group financial performance and individual performance of participants.

Note 6. Operating segments

Identification of reportable operating segments

The Group is organised into one operating segment as the Group operated only in Australia and one industry, as the producer of branded beverages and provision of co-packing services to third party beverage manufacturers. This is based on the internal reports that are reviewed and used by the Chief Executive Officer (who is identified as the Chief Operating Decision Maker ('CODM')) in assessing performance and in determining the allocation of resources. Accordingly, and consistent with the consolidated financial statements for the year ended 30 June 2020, the information provided in this interim report reflects the one operating segment.

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Notes to the consolidated financial statements
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EBITDA

Earnings before interest, taxation and depreciation & amortisation (EBITDA) is a financial measure monitored by the CODM, which is not prescribed by AAS or IFRS. The directors consider the additional information of EBITDA is relevant and useful in measuring the financial performance of the Group.

A reconciliation of EBITDA from loss after income tax is illustrated in the table below:

	Half year ended 31 Dec 2020 (\$'000)	Half year ended 31 Dec 2019 (\$'000)
Loss after tax	(6,729)	(1,514)
Income tax benefit	(2,752)	(1,064)
Finance costs	2,028	778
Earnings before interest & taxation (EBIT)	(7,453)	(1,800)
Depreciation & amortisation	373	220
EBITDA	(7,080)	(1,580)

Note 7. Revenue

Disaggregation of revenue

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

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
<i>Major product lines</i>		
Branded (net of discounts and rebates)	4,027	1,505
Contract packaging	3,257	1,305
	<u>7,284</u>	<u>2,810</u>

Note 8. Cost of sales

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Raw materials	3,617	1,653
Employee benefits expense	451	108
Excise	1,527	441
Depreciation and amortisation	<u>112</u>	<u>45</u>
	<u>5,707</u>	<u>2,247</u>

Note 9. Other income

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Research and development ('R&D') income	468	568
Allocation of R&D income to property, plant & equipment or intangible assets	(263)	(472)
Other income	60	61
	<u>265</u>	<u>157</u>

R&D income

During the half year period ended 31 December 2020, the Company recognised accrued R&D income in relation to expected eligible expenditure associated with Top Shelf's research and development of NED Australian whisky and New Australian Agave Spirit with agronomy and production streams, and improving plant sugar extraction in cereals and agave, creation of low/no sugar products and identification of Australian plant alternatives.

R&D income in relation to property, plant & equipment or intangible assets are deducted from the asset to which the R&D expenditure related.

The R&D income is recognised within Other Assets within the Statement of Financial Position. The R&D income claimed and approved by the Australian Taxation Office in relation to the financial year ended 30 June 2020 (\$1.1 million) was received by the Company in February 2021.

Note 10. Inventories

	Consolidated	
	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
<i>Current assets</i>		
Raw materials	764	1,763
Raw materials - Third party	476	222
Finished goods	349	279
Maturing inventories	3,698	1,090
Less: Provision for impairment	(71)	(25)
	<u>5,216</u>	<u>3,329</u>

Note 11. Biological assets

	Consolidated	
	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
<i>Non-current assets</i>		
Agave plants - at fair value	<u>891</u>	<u>729</u>

Agave plants growing in the ground or nursery are accounted for as biological assets until the point of harvest. Biological assets are measured on initial recognition at the end of each reporting period at fair value less costs to sell. Changes in the fair value of growing plants are recognised in the profit or loss as part of cost of sales. Costs related to growing the plants and harvesting are capitalised into the carrying value in the statement of financial position. At the time of harvest, agave plants (pina) are measured at fair value less costs to sell and transferred to inventories.

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
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Reconciliation

A reconciliation of the Agave plants at fair value at the beginning and end of the current half-year period are set out below:

Consolidated	Agave plants \$'000
Balance at 1 July 2020	729
Additions	162
Balance at 31 December 2020	<u>891</u>

Note 12. Borrowings

Consolidated
31 Dec 2020 30 Jun 2020
\$'000 \$'000

Current liabilities

Related party payables

- 1,695

Non-current liabilities

Loan from Ankara Holdings Pty Ltd - interest bearing

- 1,820

Loan from Longreach Direct Lending Fund - interest bearing

6,959 9,957

Loan from Hydraservice Hydraulic Hardware Australia Pty Ltd - interest bearing

- 338

Loan from Glankara Super Fund - interest bearing

- 692

6,959 12,807

New Financing Facility with Longreach Direct Lending Fund

On 3 December 2020, Top Shelf International Holdings Ltd entered into a Secured Borrowing Base Term Bilateral Facility Agreement with the agreement arranged by Longreach Credit Investors Pty Ltd with AMAL Trustees Pty Ltd as trustee for the Longreach Direct Lending Fund.

The interest rate is 7.25% provided the market capitalisation of Top Shelf exceeds \$75.0 million. The alternative interest rate is 10.0%. The facility matures on 15 December 2023 and accordingly has been classified as wholly non-current.

As at 31 December 2020, the facility limit was \$9.0 million increasing monthly by \$1.0 million to a maximum of \$15.0 million determined by the assessable borrowing base. The borrowing base is defined as the aggregate value of trade receivables, present value of maturing inventories, an agreed valuation of oak and vat storage assets, less 12 months of lease costs of inventory of the inventory storage facility, vested employee entitlements, outstanding excise tax payable and a \$1.0 million cost buffer.

The facility agreement has a minimum cash balance financial covenant to the equivalent of a cash balance greater than the sum of 12 month forecast net loss before tax and 12 month forecast cash outflows from investing activities.

Pre-existing Financing Facility with Longreach Direct Lending Fund

With the funds raised from the Group's initial public offering, on 18 December 2020, Top Shelf International Holdings Ltd made a utilisation request under the existing borrowing agreement (\$10.0 million) for early termination. This was granted resulting in payout of the existing facility in addition to a cessation fee of \$930,000.

The repayment of the pre-existing financing facility of \$10.0 million and drawing from the new financing facility of \$7.0 million was undertaken with Longreach Credit on a net basis in December 2020 as presented in the consolidated statement of cash flows in these interim financial statements.

Loans from related parties

During the half year ended 31 December 2020, all loans from related parties were either settled with the funds raised from the initial public offering or converted to issued capital at the date of the initial public offering in December 2020.

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
31 December 2020

Note 13. Issued capital

	Consolidated			
	31 Dec 2020	30 Jun 2020	31 Dec 2020	30 Jun 2020
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	49,713,086	8,172	65,025	27,499
Ordinary shares - unpaid	-	8	-	48
Share issue transaction costs, net of tax	-	-	(2,275)	(926)
	<u>49,713,086</u>	<u>8,180</u>	<u>62,450</u>	<u>26,621</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Opening balance	1 July 2020	8,180		26,621
Opening balance adjustment				30
Issue of shares	31 July 2020	53	\$8,000	424
Issue of shares	31 August 2020	16	\$8,000	128
Issue of shares to directors	8 September 2020	48	\$8,000	384
Issue of shares	9 September 2020	50	\$8,000	400
Share split	10 November 2020	32,945,609		-
Issue of shares upon IPO	7 December 2020	15,837,104	\$2.21	35,000
Issue of shares upon IPO to select employees	7 December 2020	17,049	\$2.21	38
Conversion of related party borrowings	7 December 2020	904,977	\$2.21	2,000
Share issue transaction costs, net of tax				<u>(2,575)</u>
Closing balance	31 December 2020	<u>49,713,086</u>		<u>62,450</u>

Initial public offering – December 2020

As part of the Company's initial public offering in December 2020, the Company received proceeds from the initial public offering of \$47.2 million of which \$35.0 million represented capital raised by the Company and a further \$12.2 million represented existing ordinary shares sold into the initial public offering by selling shareholders.

Note 14. Reserves

	Consolidated	
	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
Options reserve	<u>1,315</u>	<u>-</u>

Options reserve

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

Note 15. Dividends

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

Note 16. Contingent liabilities

The Group has given bank guarantees as at 31 December 2020 of \$200,000 (30 June 2020: \$225,000) to various landlords.

Note 17. Related party transactions

Parent entity

Top Shelf International Holdings Ltd is the parent entity.

Transactions with related parties

During the half-year ended 31 December 2020, the Company Top Shelf engaged Fairchild Advisory, a related party of Chief Executive Officer, Drew Fairchild, in relation to the provision of health safety, environment and quality services. The Company has incurred fees of \$32,500 (excluding GST) in relation to these services.

Receivable from related parties

There were no trade receivables from related parties at the current and previous reporting date.

Loans to/from and payables to related parties

During the half year ended 31 December 2020, all loans from related parties were either settled with the funds raised from the initial public offering or converted to issued capital at the date of the initial public offering in December 2020. The following balances in relation to loans and payables with related parties were outstanding as at 30 June 2020:

	Consolidated	
	31 Dec 2020	30 Jun 2020
	\$	\$
Current borrowings:		
Loan from Fairchild Advisory Pty Ltd, a director related entity associated with Drew Fairchild	-	1,396,517
Loan from DanDrewFairchild Pty Ltd, a director related entity associated with Drew Fairchild	-	121,809
Loan from key management personnel - Bill Batsilas	-	177,005
Non-current borrowings:		
Loan from Ankara Holdings, a director related entity associated with Adem Karafili	-	1,820,000
Loan from Glankara Super Fund, a director related entity associated with Adem Karafili	-	692,420
Loan from Hydraservice Hydraulic Hardware Australia Pty Ltd, an entity associated with an employee	-	337,750

Terms and conditions

All loan transactions were made on normal commercial terms and conditions and at market rates. All related party loans have been repaid in full throughout the period.

Note 18. Share-based payments

Initial option offer – October 2020

In October 2020, 6,395,760 share options were granted to directors and employees as part of an initial option offer in accordance with the terms of the Group's Long Term Incentive Plan ('LTIP'). The purpose of the initial option offer is to reward key individuals for their contribution to the Group and performance prior to the Group's initial public offering in December 2020 and to align their interests with the interests of the Group and shareholders.

In accordance with the terms of the LTIP, participants in the initial option offer were offered:

- Start-up options, being options which cannot be disposed by the participant until the third anniversary from the date of grant or until the participant ceases employment with the Group; and / or
- Premium priced options, being options with an exercise price set at a 70% premium to the value of the underlying shares at the time of grant.

As part of the initial option offer, 2,202,984 Start-up options and 4,192,776 Premium priced options were issued. The exercise price for each form of option was \$2.026 and \$3.445 respectively.

As the exercise price of Premium priced options is significantly above the Company's initial public offering listing price of \$2.21, the Company considers it likely that some or all participants holding vested Premium priced options may request to cancel those options in exchange for being issued a number of shares equal to the market value of a share

Top Shelf International Holdings Ltd
Notes to the consolidated financial statements
31 December 2020

on the date of cancellation minus the exercise price, in accordance with the rules of the Company's LTIP.

A portion of the Start-up and Premium priced options granted to participants under the initial option offer vested upon grant date (Tranche 1). The balance of the Start-up and Premium priced options are subject to vesting conditions (Tranche 2).

The options granted to participants under the initial option offer which are subject to vesting conditions are subject to:

- A service based vesting condition, such that one third of the options will vest on each anniversary from the date of grant for three years;
- A performance-based vesting condition which is linked to the share price growth achieved by the Group based on the 5 day VWAP immediately prior to the 3rd anniversary of the grant of the options; and
- Two further performance based vesting conditions linked to the performance of both the Group (based on the Group achieving the forecast revenue for the financial year ended 30 June 2020 (FY21)) and the participant's individual performance in FY21.

The options are due to expire the 6th anniversary of the grant date and have been valued at fair value. There is no cash settlement of the options.

The fair value of options for the Start-up and Premium priced options granted during the six months ended 31 December 2020 was estimated on the date of grant using the following assumptions:

- Dividend yield (%) - 0.00%
- Expected volatility (%) - 40%
- Risk-free interest rate (%) - 0.27%
- Expected life of share options (years) - 6 years
- Weighted average share price (\$) – 2.026

The fair value of the Start-up and Premium priced options recognised for accounting purposes in accordance *with AASB 2 Share Based Payments* is as follows:

Start-up options:

- Tranche 1: \$0.447
- Tranche 2: \$0.403

Premium priced options:

- Tranche 1: \$0.175
- Tranche 2: \$0.244

For the six months ended 31 December 2020, the Group recognised \$1,315,000 of share-based payment expense in relation to the plan in the statement of profit and loss being the fair value at grant date (30 June 2020: \$nil).

Pre initial public offering share based payment

In addition to the initial option plan, selected Directors were issued a total of 48 ordinary shares at nil cash consideration in the Company prior to the initial public offering to the value of \$384,000, which has been recognised as a share based payment by the Group.

Note 19. Earnings per share

	Consolidated	
	31 Dec 2020	31 Dec 2019
	\$'000	\$'000
Loss after income tax attributable to the owners of Top Shelf International Holdings Ltd	(6,729)	(1,514)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share*	35,031,242	28,806,338
Weighted average number of ordinary shares used in calculating diluted earnings per share**	35,031,242	28,806,338
	Cents	Cents
Basic earnings per share	(19.21)	(5.25)
Diluted earnings per share	(19.21)	(5.25)

* Shares have been stated as though share split had been in place since inception.

** Options are excluded from the above calculation as their inclusion would be anti-dilutive.

Note 20. Events after the reporting period

The Group has continued to utilise the financing facility with Longreach Direct Lending Fund (described in Note 12) in accordance with the borrowing base assessment of the facility. Subsequent to 31 December 2020, the Group has drawn an additional \$3.0 million from the facility. The drawn balance of the facility is \$10.0 million as at the date of this report.

On 11 February 2021, the Group executed a property lease agreement providing the Group with additional dry goods and whisky warehouse storage capacity in Somerton, Melbourne, Victoria. This additional warehouse capacity is near to the Group's existing dry goods and whisky warehouse in Somerton. The initial term of the lease agreement is for three years with options for a further two terms of five years each. In accordance with the lease agreement, the Group has arranged a security deposit in the form of a bank guarantee (\$150,000).

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Top Shelf International Holdings Ltd
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Drew Fairchild
Chief Executive Officer

25 February 2021
Melbourne



Adem Karafili
Chairman



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Independent Auditor's Review Report to the Members of Top Shelf International Holdings Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Top Shelf International Holdings Ltd (the Company) and its subsidiaries (collectively the Group), which comprises of the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies, and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
- ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Brett Croft
Partner
Melbourne
25 February 2021