

Candy Club Holdings Limited
Appendix 4D
Half-year report

1. Company details

Name of entity: Candy Club Holdings Limited
ACN: 629 598 778
Reporting period: For the half-year ended 30 June 2022
Previous period: For the half-year ended 30 June 2021

2. Results for announcement to the market

			US\$
Revenues from ordinary activities	up	1.6% to	6,971,185
Loss from ordinary activities after tax attributable to the owners of Candy Club Holdings Limited	down	19.1% to	(3,280,888)
Loss for the half-year attributable to the owners of Candy Club Holdings Limited	down	19.1% to	(3,280,888)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to US\$3,280,888 (30 June 2021: US\$4,053,202).

Refer to the review of operations section of the Directors' Report for additional commentary.

3. Net tangible assets/ (liabilities)

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.53</u>	<u>1.93</u>

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.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. 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.

11. Attachments

Details of attachments (if any):

The Interim Report of Candy Club Holdings Limited for the half-year ended 30 June 2022 is attached.

12. Signed

Signed



Nova Taylor - Secretary

Date: 30 August 2022

Candy Club Holdings Limited

ACN 629 598 778

Interim Report - 30 June 2022

Candy Club Holdings Limited
Corporate directory
30 June 2022

Directors	Mr Keith Cohn (Executive Director) Mr James Baillieu (Non Executive Chairman) Mr Andrew Clark (Non Executive Director) Mr Chi Kan Tang (Non-Executive Director)
Company secretary	Ms Nova Taylor
Registered office	C/O- Automic Registry Services Level 5, 126 Philip Street Sydney NSW 2000, 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	https://www.candyclub.com

Candy Club Holdings Limited
Directors' report
30 June 2022

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 half-year ended 30 June 2022.

Directors

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

Keith Cohn
James Baillieu
Chi Kan Tang
Andrew Clark

Principal activities

During the half-year the principal continuing activities of the consolidated entity consisted of:

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

Review of operations

Revenue for the half-year grew 1.6% on a year over year (YoY) basis to US\$6,971,185. During the same period, revenue in the consolidated entity's wholesale (B2B) segment grew to ~US\$6.3 million from ~US\$5.7m or 11.06% (YoY), driven by strong performance in its direct selling efforts to large national and regional accounts which was up over 150% year-to-date.

The consolidated entity has taken a more measured approach to growth, balancing the desire to scale with the need to achieve profitability as quickly as possible. As such, the loss for the consolidated entity after providing for income tax amounted to US\$3,280,888, a 19.1% decrease vs. the prior year (30 June 2020: US\$4,053,202).

The B2B business continues to be the primary focus for growth, with many new key customer wins occurring in the first-half of CY2022 that will result in orders that will ship in the second-half of 2022.

Despite extraordinary pressures on expenses including inflation, product and component shortages, and increased labor rates, the consolidated entity's gross margins remain strong (44%) and see further opportunity to grow these in the future.

As previously reported, the consolidated entity engaged US based investment bankers in the first half of CY2022 to assist in undertaking a strategic review of the business, including its future capital requirements. This process is ongoing.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial half-year

The consolidated entity has been undertaking a strategic review of its operations and business, including considering the capital requirements of the business and engaging professional advisers to assist in the process. The consolidated entity will update shareholders and the market in due course on any developments in this regard.

Additionally, the consolidated entity executed a cost reduction program in August 2022 which will result in approximately US\$1,000,000 in lowered expenses annually. While many of the employees impacted by this cost-cutting initiative were actively contributing to Candy Club's growth and innovation, these reductions were deemed necessary by the consolidated entity's management and board of directors in order to expedite its mission critical objective of reaching profitability as quickly as possible.

No other matter or circumstance has arisen since 30 June 2022 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.


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.

Candy Club Holdings Limited
Directors' report
30 June 2022

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



Keith Cohn
Executive Director

30 August 2022

Copy
For personal use

Auditor's Independence Declaration

As lead auditor for the review of the consolidated financial report of Candy Club Holdings Limited ("the Company") and its controlled entities ("the Group") for the half-year ended 30 June 2022, 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 review; and
- (b) any applicable code of professional conduct in relation to the review.

This declaration is in relation to the Company and the entities it controlled during the period.



HLB Mann Judd
Chartered Accountants

Melbourne
31 August 2022



Jude Lau
Partner

hlb.com.au

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

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (VIC Partnership) is a member of HLB International, the global advisory and accounting network

For personal use only

Candy Club Holdings Limited

Contents

30 June 2022

Statement of profit or loss and other comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Directors' declaration	18
Independent auditor's review report to the members of Candy Club Holdings Limited	19

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

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

Registered office

C/O- Automic Registry Services
Level 5, 126 Philip Street
Sydney NSW 2000, Australia

Principal place of business

5855 Green Valley Circle
Suite 101
Culver City, CA 90230

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2022.

Candy Club Holdings Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2022

	Note	Consolidated June 2022 US\$	Consolidated June 2021 US\$
Revenue	4	6,971,185	6,863,484
Interest revenue calculated using the effective interest method		47	58
Expenses			
Cost of goods sold		(3,924,841)	(3,929,152)
Corporate and administration expenses		(268,860)	(410,859)
Marketing and promotional expenses		(2,324,039)	(2,852,164)
Employee benefits expense		(2,135,220)	(1,549,577)
Development expenses		(64,158)	(53,093)
Depreciation and amortisation expense		(132,092)	(68,236)
Share based payment expense		(101,191)	(745,512)
Technology expenses		(151,277)	(103,161)
Property expenses		(7,201)	(17,954)
Other expenses		(457,452)	(372,761)
Finance costs		(685,789)	(814,275)
Loss before income tax expense		(3,280,888)	(4,053,202)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Candy Club Holdings Limited		(3,280,888)	(4,053,202)
Other comprehensive loss			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(1,427)	(93,914)
Other comprehensive loss for the half-year, net of tax		(1,427)	(93,914)
Total comprehensive loss for the half-year attributable to the owners of Candy Club Holdings Limited		(3,282,315)	(4,147,116)
		Cents	Cents
Basic earnings per share	15	(0.89)	(1.28)
Diluted earnings per share	15	(0.89)	(1.28)

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

Candy Club Holdings Limited
Statement of financial position
As at 30 June 2022



Assets

Current assets

	Note	Consolidated June 2022 US\$	December 2021 US\$
Cash and cash equivalents		2,238,181	5,203,752
Trade and other receivables	5	1,052,706	1,763,019
Inventories	6	6,340,169	7,094,141
Other		434,932	377,376
Total current assets		<u>10,065,988</u>	<u>14,438,288</u>

Non-current assets

Property, plant and equipment		76,501	46,967
Right-of-use assets	7	729,727	844,902
Intangibles		81,757	91,851
Other		28,750	47,105
Total non-current assets		<u>916,735</u>	<u>1,030,825</u>

Total assets

10,982,723 15,469,113

Liabilities

Current liabilities

Trade and other payables	8	1,223,440	2,174,793
Borrowings	9	3,219,169	2,062,292
Lease liabilities		630,381	592,804
Total current liabilities		<u>5,072,990</u>	<u>4,829,889</u>

Non-current liabilities

Borrowings	9	3,807,901	5,280,634
Lease liabilities		54,192	129,826
Total non-current liabilities		<u>3,862,093</u>	<u>5,410,460</u>

Total liabilities

8,935,083 10,240,349

Net assets

2,047,640 5,228,764

Equity

Issued capital	10	32,624,921	32,495,417
Reserves	11	(8,449,060)	(8,419,320)
Accumulated losses		(22,128,221)	(18,847,333)

Total equity

2,047,640 5,228,764

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



Candy Club Holdings Limited
Statement of changes in equity
For the half-year ended 30 June 2022

Consolidated	Issued capital US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Balance at 1 January 2021	21,835,441	(9,060,862)	(10,925,378)	1,849,201
Loss after income tax expense for the half-year	-	-	(4,053,202)	(4,053,202)
Other comprehensive loss for the half-year, net of tax	-	(93,914)	-	(93,914)
Total comprehensive loss for the half-year	-	(93,914)	(4,053,202)	(4,147,116)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	8,436,101	-	-	8,436,101
Share-based payments	-	745,512	-	745,512
Balance at 30 June 2021	<u>30,271,542</u>	<u>(8,409,264)</u>	<u>(14,978,580)</u>	<u>6,883,698</u>
	Issued capital US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Consolidated				
Balance at 1 January 2022	32,495,417	(8,419,320)	(18,847,333)	5,228,764
Loss after income tax expense for the half-year	-	-	(3,280,888)	(3,280,888)
Other comprehensive loss for the half-year, net of tax	-	(1,427)	-	(1,427)
Total comprehensive loss for the half-year	-	(1,427)	(3,280,888)	(3,282,315)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	101,191	-	101,191
Transfers on satisfying performance rights	129,504	(129,504)	-	-
Balance at 30 June 2022	<u>32,624,921</u>	<u>(8,449,060)</u>	<u>(22,128,221)</u>	<u>2,047,640</u>

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

Candy Club Holdings Limited
Statement of cash flows
For the half-year ended 30 June 2022

	Consolidated	
	June 2022	June 2021
	US\$	US\$
Cash flows from operating activities		
Receipts from customers	7,721,411	6,644,423
Payments to suppliers and employees	<u>(9,545,787)</u>	<u>(11,087,466)</u>
	(1,824,376)	(4,443,043)
Interest received	47	58
Interest and other finance costs paid	<u>(714,536)</u>	<u>(617,774)</u>
Net cash (used) in operating activities	<u>(2,538,865)</u>	<u>(5,060,759)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(36,357)	(110,204)
Proceeds from release of security deposits	<u>-</u>	<u>750</u>
Net cash (used) in investing activities	<u>(36,357)</u>	<u>(109,454)</u>
Cash flows from financing activities		
Proceeds from issue of shares	-	6,972,230
Proceeds from borrowings	-	5,312,145
Share issue transaction costs	-	(364,963)
Repayment of borrowings	(287,000)	(1,857,000)
Repayment of lease liabilities	<u>(38,057)</u>	<u>(34,158)</u>
Net cash from/(used in) financing activities	<u>(325,057)</u>	<u>10,028,254</u>
Net increase/(decrease) in cash and cash equivalents	(2,900,279)	4,858,041
Cash and cash equivalents at the beginning of the financial half-year	5,203,752	2,018,492
Effects of exchange rate changes on cash and cash equivalents	<u>(65,292)</u>	<u>(86,092)</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>2,238,181</u></u>	<u><u>6,790,441</u></u>

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 30 June 2022 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 general purpose 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 period ended 31 December 2021 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.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred a loss from ordinary activities of \$US3,280,888 for the six months ended 30 June 2022 and had negative cash from operating activities of US\$2,538,865.

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

- The consolidated entity has current assets of approximately US\$10.1 million vs. current liabilities of approximately US\$5.1 million and total liabilities of approximately US\$8.9 million;
- The business is coming into its strong seasonality period in 2H CY2022 which it expects will bring increased revenue;
- The combination of increased revenue in its stronger seasonality periods and lower expenses resulting from its recent cost cutting initiatives is expected to see the Group achieve improved trading results relative to the Group's prior earnings results.
- The consolidated entity will be launching many new strategic product initiatives over the next several quarters and believes that these will drive further sales growth beginning in 1H CY2023;
- Candy Club continues to expand its business with existing accounts and add new accounts on a year over year basis;
- If required the consolidated entity could cut costs further in order to ensure that the business remains viable on lower revenue than anticipated; and
- The consolidated entity expects that it will be able to engage with a third party to (subject to agreement of terms and conditions) invest additional funding in order to strengthen the consolidated entity's balance sheet, meet its debt obligations and fund future growth.

Accordingly, the directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

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

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

Note 2. Impact of COVID 19 Pandemic

During the current financial half-year the COVID-19 pandemic continued to have a significant impact on the global economy. In response to the pandemic, the US, state and local governments continued with 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). The consolidated entity has responded to the COVID-19 in the following ways:

- Extending Candy Club’s stated business continuity plan of enabling all consolidated entity employees, including head office and sales staff, to work remotely, until further notice;
- To date, no material business interruptions have occurred in either the consolidated entity’s warehousing and distribution center operations, located primarily in Indiana, nor in its supply chain of core product or packaging vendors, as the consolidated entity’s facility are classified as a food manufacturer and currently considered “essential critical business infrastructure”; given the fluidity of the situation this may be subject to change in the future;
- The consolidated entity’s board of directors and management review and revise Candy Club’s 2022 operating plans, including operating expense management solutions and associated cashflow budget, to adapt to the impact of the ongoing COVID-19 crisis; and
- With the potential for new COVID-19 variants to emerge, management and the board of directors continue to assess the Company’s position in relation to the COVID-19 pandemic and its impact on the consolidated entity on an ongoing basis and will make further operating adjustments as conditions dictate

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

Note 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. CODM manages the B2B business line as part of the overall candy selling business, whereby no discrete financial information between the B2C and B2B lines is maintained other than the revenue generated. The Board being the chief operating decision maker monitors the financial performance and position of the group as a whole and not by the business line. To this end, the group has been assessed as one business segment during the half-year ended 30 June 2022. Refer to note 4 for split of total revenue per business line.

Note 4. Revenue

	Consolidated	
	June 2022	June 2021
	US\$	US\$
Sales of goods	<u>6,971,185</u>	<u>6,863,484</u>

Candy Club Holdings Limited
Notes to the financial statements
30 June 2022

Note 4. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	Consolidated
	June 2022	June 2021
	US\$	US\$
<i>Revenue streams</i>		
Business to customer	679,193	1,198,907
Business to business	6,291,992	5,664,577
	<u>6,971,185</u>	<u>6,863,484</u>
<i>Geographical regions</i>		
United States of America	<u>6,971,185</u>	<u>6,863,484</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<u>6,971,185</u>	<u>6,863,484</u>

Note 5. Trade and other receivables

	Consolidated	Consolidated
	June 2022	December
	US\$	2021
	US\$	US\$
<i>Current assets</i>		
Trade receivables	1,013,186	1,877,984
Less: Allowance for expected credit losses	(82,829)	(245,352)
	<u>930,357</u>	<u>1,632,632</u>
Other receivables	116,039	126,188
BAS receivable	6,310	4,199
	<u>1,052,706</u>	<u>1,763,019</u>

Note 6. Inventories

	Consolidated	Consolidated
	June 2022	December
	US\$	2021
	US\$	US\$
<i>Current assets</i>		
Stock on hand - at cost	6,537,972	7,244,106
Less: Provision for impairment	(197,803)	(149,965)
	<u>6,340,169</u>	<u>7,094,141</u>

Candy Club Holdings Limited
Notes to the financial statements
30 June 2022

Note 7. Right-of-use assets

	Consolidated	December
	June 2022	2021
	US\$	US\$
<i>Non-current assets</i>		
Leased buildings - right-of-use	275,806	275,806
Less: Accumulated depreciation	<u>(197,861)</u>	<u>(161,886)</u>
	<u>77,945</u>	<u>113,920</u>
Plant and equipment - right-of-use	827,231	827,231
Less: Accumulated depreciation	<u>(175,449)</u>	<u>(96,249)</u>
	<u>651,782</u>	<u>730,982</u>
	<u><u>729,727</u></u>	<u><u>844,902</u></u>

Reconciliations

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

Consolidated	Leased buildings US\$	Plant and equipment US\$	Total US\$
Balance at 1 January 2022	113,920	730,982	844,902
Depreciation expense	<u>(35,975)</u>	<u>(79,200)</u>	<u>(115,175)</u>
Balance at 30 June 2022	<u><u>77,945</u></u>	<u><u>651,782</u></u>	<u><u>729,727</u></u>

Note 8. Trade and other payables

	Consolidated	December
	June 2022	2021
	US\$	US\$
<i>Current liabilities</i>		
Trade payables	1,011,405	1,705,185
Other payables	<u>212,035</u>	<u>469,608</u>
	<u><u>1,223,440</u></u>	<u><u>2,174,793</u></u>

All trade and other payables are unsecured.

Candy Club Holdings Limited
Notes to the financial statements
30 June 2022

Note 9. Borrowings

	Consolidated	December
	June 2022	2021
	US\$	US\$
<i>Current liabilities</i>		
Loan - short term (unsecured)	855,353	806,114
Loan - debt facility (secured)	<u>2,363,816</u>	<u>1,256,178</u>
	<u>3,219,169</u>	<u>2,062,292</u>
<i>Non-current liabilities</i>		
Loan - debt facility (secured)	<u>3,807,901</u>	<u>5,280,634</u>

Short term borrowings

The bridging finance includes a balance of US\$650,000 (2021: US \$650,000) with interest being accrued at 1% (2021: 1%) per month. These loans may be converted into fully paid ordinary shares at the discretion of the lender.

Credit facility

The company executed a debt facility in April 2021 for up to US \$7.5m of which all US\$7.5 million has been drawn down, with the most recent draw of \$2.5m on November 12, 2021. Under the debt facility, there will be Interest only (12%) payments for twelve (12) months followed by thirty (30) months of principal and interest repayments.

The debt facility will rank as first priority lien and is secured by all of the operating subsidiary's assets.

Financing arrangements

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

	Consolidated	December
	June 2022	2021
	US\$	US\$
Total facilities		
Credit facility	<u>7,212,592</u>	<u>5,000,000</u>
Used at the reporting date		
Credit facility	<u>7,212,592</u>	<u>5,000,000</u>
Unused at the reporting date		
Credit facility	<u>-</u>	<u>-</u>

Candy Club Holdings Limited
Notes to the financial statements
30 June 2022

Note 10. Issued capital

	June 2022 Shares	Consolidated December 2021 Shares	June 2022 US\$	December 2021 US\$
Ordinary shares - fully paid	367,465,931	365,465,931	32,624,921	32,495,417

Movements in ordinary share capital

Details	Date	Shares	Issue price	US\$
Balance	1 January 2022	365,465,931		32,495,417
Shares issued upon conversion of performance rights	9 March 2022	2,000,000	US\$0.648	129,504
Balance	30 June 2022	<u>367,465,931</u>		<u>32,624,921</u>

Note 11. Reserves

	Consolidated June 2022 US\$	December 2021 US\$
Foreign currency reserve	(454,100)	(452,673)
Share-based payments reserve	4,394,017	4,422,330
Commonly controlled reserve	<u>(12,388,977)</u>	<u>(12,388,977)</u>
	<u>(8,449,060)</u>	<u>(8,419,320)</u>

Movements in reserves

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

Consolidated	Foreign currency US\$	Share-based payments US\$	Commonly controlled US\$	Total US\$
Balance at 1 January 2022	(452,673)	4,422,330	(12,388,977)	(8,419,320)
Foreign currency translation	(1,427)	-	-	(1,427)
Share-based payments	-	101,191	-	101,191
Transfer to issued capital on conversion of performance shares	-	(129,504)	-	(129,504)
Balance at 30 June 2022	<u>(454,100)</u>	<u>4,394,017</u>	<u>(12,388,977)</u>	<u>(8,449,060)</u>

Note 12. Contingent liabilities

The consolidated entity had no contingent liabilities at 30 June 2022 and 31 December 2021.

Note 13. Related party transactions

Parent entity

Candy Club Holdings Limited is the parent entity.

Note 13. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated June 2022 US\$	June 2021 US\$
Payment for other expenses:		
Interest accrued to key management personnel and their related entities.	49,398	52,687

Receivable from and payable to related parties

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

	Consolidated June 2022 US\$	December 2021 US\$
Current payables:		
Other payables to key management personnel	-	124,126
Bonus accrued to key management personnel	-	112,000

Loans to/from related parties

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

	Consolidated June 2022 US\$	December 2021 US\$
Current borrowings:		
Loan from key management personnel and their related entities *	852,356	802,962

* The bridging finance includes a balance of US\$650,000 (2021: US\$650,000) with interest being accrued at 1% (2021: 1%) per month. These loans may be converted into fully paid ordinary shares at the discretion of the lender.

Note 14. Events after the reporting period

The consolidated entity has been undertaking a strategic review of its operations and business, including considering the capital requirements of the business and engaging professional advisers to assist in the process. The consolidated entity will update shareholders and the market in due course on any developments in this regard.

Additionally, the consolidated entity executed a cost reduction program in August 2022 which will result in approximately US\$1,000,000 in lowered expenses annually. While many of the employees impacted by this cost-cutting initiative were actively contributing to Candy Club's growth and innovation, these reductions were deemed necessary by the consolidated entity's management and board of directors in order to expedite its mission critical objective of reaching profitability as quickly as possible.

No other matter or circumstance has arisen since 30 June 2022 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 15. Earnings per share

	Consolidated	
	June 2022	June 2021
	US\$	US\$
Loss after income tax attributable to the owners of Candy Club Holdings Limited	<u>(3,280,888)</u>	<u>(4,053,202)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>366,714,550</u>	<u>317,269,276</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>366,714,550</u>	<u>317,269,276</u>
	Cents	Cents
Basic earnings per share	(0.89)	(1.28)
Diluted earnings per share	(0.89)	(1.28)

Note 16. Seasonality of operations

The consolidated entity derives its revenues from candy distribution in the United States. Due to events including Halloween, Thanksgiving and Christmas, the consolidated entity generates a higher revenue in the second half of the year, than the current half year.

Candy Club Holdings Limited
Directors' declaration
30 June 2022

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 consolidated entity's financial position as at 30 June 2022 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



Keith Cohn
Executive Director

30 August 2022

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Candy Club Holdings Limited ("the company") and its controlled entities ("the Group"), which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Going Concern

We draw attention to Note 1 *Going Concern*, in the interim financial report, which indicates that the Group incurred a net loss after tax of US\$3,280,888 during the half-year ended 30 June 2022 and, over that period, had a net operating cash outflow of US\$2,538,865. As stated in Note 1 *Going Concern*, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review 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 (including Independence Standards)* (the Code) that are relevant to our audit of the annual 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 Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

hlb.com.au

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

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

Responsibility of the Directors for the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us 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 financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.



**HLB Mann Judd
Chartered Accountants**



**Jude Lau
Partner**

Melbourne
31 August 2022