

Heritage Brands Limited and Controlled entities

Chairman's Report for the Year ended 31st July 2014

Dear Shareholder,

The continuing difficult economic climate, especially in the retail sector, contributed significantly to Heritage Brands Limited (Heritage) delivering poor financial results for the financial year ended 31 July 2014. While Gross Revenue is marginally ahead of the previous year, EBITDA is well down as shown in the following table:

\$'000's	2014	2013	% Variance
Sales	35,604	33,802	5.3%
Trading terms	(5,572)	(4,514)	23.4%
Net Revenue	30,362	29,428	3.2%
EBITDA	1,156	1,939	-40.4%

Increased pressure from major retail customers to increase promotional allowances and discount prices, resulted in a 23.4% increase in trading terms from the previous year and significantly impacted Heritage's profitability. This coupled with a \$3 million sales collapse in the second half of the year across all of our base brands resulted from a dramatic fall in consumer and retail confidence caused by the Federal Government's "Austerity budget".

The ongoing downturn in consumer confidence has resulted in retail closures and growing unemployment which will continue to affect the amount of consumer dollars being spent on health and beauty products. Notwithstanding the foregoing, the Directors and senior management team remain confident about the future of the Company and continue to explore new opportunities as well as reviewing our current organisational structure to position the company for future growth.

We are pleased to advise shareholders that Heritage has signed an exclusive distribution agreement in Australia and New Zealand for the highly successful "Skin Republic" products. Skin Republic is an innovative skincare range (Facial Masks) that combines the latest advances in skincare with the restorative properties found in nature. We also draw shareholders attention to note 24 of the accounts in relation to related party transactions and confirm that the Company has a Deed of First Right of Refusal in regard to any sale of the brands owned by Brands RMJ Pty and Oswin Laboratories Pty Ltd (Le Tan,Cedel and Bexters)

Heritage has had a positive start to the year and subject to unforeseen circumstances, senior management are forecasting a vastly improved EBITDA for 2015 financial year.



David Fairfull
Chairman
16th September 2014