

Heritage Brands Ltd and Controlled Entities

ACN 081 149 635

Financial Statements

For the Half-Year Ended 31 January 2020

Contents

For the Half-Year Ended 31 January 2020

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Heritage Brands

ACN 081 149 635

Chairman's Report For the Half-Year Ended 31 January 2020

20 March 2020

Dear Shareholders,

The Directors are pleased to advise that Heritage Brands Limited ('HBL') has delivered an improved set of results for the continuing operations for the half year ended 31 January 2020, resulting in an EBITDA of \$2.0m (2019: \$1.3m) before the loss from discontinued operations.

In line with previous announcements, shareholders would be aware that HBL experienced difficult trading conditions in the second half of FY2019. The improved results in the first half of FY2020 reflect a significant turnaround in what continues to be a challenging retail environment in Australia.

The turnaround was achieved by:

- A significant restructure to the cost base with the total business now aligned with current operating conditions;
- Renegotiating all trading terms with key retailers to ensure a more variable investment model and withdrawing from any loss-making promotional activity;
- Fast tracking online e-commerce into international markets with a focus on our pure essential oil brands; and
- Realigning investment and improving margins within the colour cosmetics portfolio to ensure the brands are trading profitably.

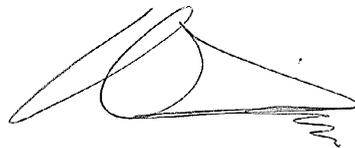
In light of the current Covid-19 outbreak, the management team and the Directors continue to review all aspects of the business to ensure profitability is maintained. We are focusing more on online / e-commerce sales channels via our retail partner's online stores, e-commerce dedicated marketplaces and our own web sites to counter the downturn in foot traffic in bricks and mortar retail.

Even though the first half of FY2020 has shown improved profitability compared with the same period last year (for the continuing operations), we remain cautious due to the continued uncertainty around the economic health of retail markets both here and abroad.

However, we continue to adapt to the current environment and believe we are well placed to capitalise on future opportunities in the market.



M. Krok
Chairman



C. Gendis
Managing Director



Directors' Report For the Half-Year Ended 31 January 2020

The directors submit the financial report of the Group for the half-year ended 31 January 2020.

1. General information

Information on directors

The names of each person who has been a director during the half-year and to the date of this report are:

KROK Maxim	Non-Executive Director
McCARTNEY William Thomson Venables	Non-Executive Director
MASON Stephen Leslie	Non-Executive Director
FAIRFULL David John (resigned 28 November 2019)	Non-Executive Director
SMITH Brent (appointed 28 November 2019)	Non-Executive Director
KAPLAN Elliot (appointed 28 November 2019)	Non-Executive Director
GENDIS Constantinos	Managing Director

Company secretary

The following person held the position of Company secretary at the end of the financial half-year:

McGIBBON, Christopher William (CA (SA)) has been the company secretary since 9 February 2009.

Significant changes in state of affairs

No significant changes in the Group's state of affairs occurred during the financial half-year.

Principal activities and significant changes in nature of activities

The principal activities of the Group during the financial half-year were the selling and distribution of branded cosmetics, toiletries, skincare, nail care products, sun protection, artificial tanning and aromatherapy oils.

There were no significant changes in the nature of the Group's principal activities during the financial half-year.

2. Operating results and review of operations for the year

Operating results

The Group recorded a loss after taxation of \$328,440 (2019: Profit \$478,497). The operating results can be illustrated as follows:

	2020	2019
Net Revenue after Trading Terms	28,084,218	33,008,730
Earnings after Taxation	(328,440)	478,497
Taxation	(114,876)	198,223
Earnings before Taxation	(443,316)	676,720
Interest on Bank Loans	337,225	381,509
Interest on Shareholder loans	181,493	-
Depreciation	939,645	211,844
Loss from discontinued operations	1,029,000	-
EBITDA	2,044,047	1,270,073

Directors' Report

For the Half-Year Ended 31 January 2020

Review of operations

Net revenue decreased compared to the same period as last year however, the quality of earnings improved due to the cost restructures undertaken in May and October 2019. As a result, the company is in a better financial position and is well positioned to capitalise on growth opportunities.

The profit and loss was impacted by a one-off, non-cash adjustment relating to a \$1,029,000 loss from discontinued operations as highlighted in the table above.

3. Financial review

Financial position

The net assets of the Group have decreased by \$328,440 from \$24,520,315 at 31 July 2019 to \$24,191,875 at 31 January 2020 as a result of the loss incurred. This decrease is largely due to the following factors:

- A loss from discontinued operations: \$1,029,000:
- A profit before tax of \$585,684 from continuing operations: and
- Capitalisation of Finance Leases as a result of compliance with AASB 16 resulted in the creation of a Right of Use asset: \$1,967,078. The written down values of the Right of Use asset as at 31 January 2020 is \$1,201,074 and the Lease Liability is \$1,223,244.

4. Other items

Matters or circumstances arising after the end of the reporting period

The Directors are closely monitoring the outbreak of the Novel Coronavirus. While at this stage it's too early to assess financial impacts to the Group, should there be a sustained material impact on consumption of the Group's products, this would likely impact future earnings.

Future developments and results

The Group's strategy is to grow the business organically and by acquisition as and when opportunities arise. Integral to this strategy is to focus on retail partners and pursue ongoing opportunities within the current brands owned and licensed by the Group. The current brands owned or licensed include Australis, Mode, Innoxia, Le Tan, Nailene, In Essence, Oil Garden, Luma, Skin Republic and Cedel.

Environmental matters

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory.

Dividends paid or recommended

No dividends were paid or declared since the start of the financial half-year (2019: \$900,556). No recommendation for payment of dividends has been made.

Directors' Report

For the Half-Year Ended 31 January 2020

Options

Unissued shares under option

At the date of this report, the unissued ordinary shares of Heritage Brands Ltd under option are as follows:

10,000,000 share options were issued to the Managing Director, Mr Constantinos Gendis at the AGM held in November 2015. No shares were issued during or since the end of the half-year as a result of the exercise of an option over unissued shares or interests. There have been no unissued shares or interests under option of any controlled entity within the Group granted during or since the end of the reporting period.

No options were granted as remuneration to key management personnel and other executives during the year.

During the half-year ended 31 January 2020, no ordinary shares of Heritage Brands Ltd were issued on the exercise of options granted. No further shares have been issued since year end on the exercise of options granted.

Indemnification and insurance of officers and auditors

The Company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of director or company secretary of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contract.

No indemnities have been issued or insurance premium paid in respect of auditors of the Company.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the Corporations Act 2001 for the half-year ended 31 January 2020 has been received and can be found on page 5 of the financial report.

This report is signed in accordance with a resolution of the Board of Directors.

Director:

Maxim Krok

Dated 20 March 2020

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001**

To the directors of Heritage Brands Ltd and its Controlled Entities

As lead auditor for the review of Heritage Brands Ltd and its Controlled Entities for the half-year ended 31 January 2020, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in relation to Heritage Brands Ltd and the entities it controlled during the half-year.

Rothsay Chartered Accountants



Daniel Dalla

Partner

Sydney, 20 March 2020

Statement of Profit or Loss and Other Comprehensive Income
For the Half-Year Ended 31 January 2020

		31 January 2020	31 January 2019
	Note	\$	\$
Revenue	3	28,212,447	33,228,363
Other income	3	30	593
Cost of Goods Sold		(16,234,681)	(19,419,962)
Advertising and Promotion		(1,976,188)	(3,675,081)
Depreciation and amortisation expense		(939,645)	(211,844)
Employee benefits expense		(4,982,889)	(5,646,865)
Finance Costs	4	(518,718)	(381,509)
Occupancy expenses		(210,950)	(210,950)
Other expenses	4	(2,763,722)	(3,006,025)
Profit (loss) before income tax		585,684	676,720
Income tax benefit (expense)	5	(193,824)	(198,223)
Profit (loss) for the half-year from continuing operations		391,860	478,497
Loss from discontinued operations	23	(720,300)	-
Profit (loss) for the half-year		(328,440)	478,497
Other comprehensive income		-	-
Total comprehensive income for the year		(328,440)	478,497
Profit attributable to:			
Members of the parent entity		(328,440)	478,497
		(328,440)	478,497
Total comprehensive income attributable to:			
Members of the parent entity		(328,440)	478,497
		(328,440)	478,497
Earnings per share			
From continuing operations:			
Basic earnings per share (cents)		0.02	0.03
Diluted earnings per share (cents)		0.02	0.03
From discontinued operations:			
Basic earnings per share (cents)		(0.04)	-
Diluted earnings per share (cents)		(0.04)	-

The Group has initially applied AASB 16 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 117 and related interpretations.

Statement of Financial Position
As At 31 January 2020

		31 January 2020	31 July 2019
	Note	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	744,282	248,984
Trade and other receivables	8	8,007,833	7,938,784
Inventories	9	11,753,336	12,659,166
Current tax receivable	18	-	603,153
TOTAL CURRENT ASSETS		<u>20,505,451</u>	21,450,087
NON-CURRENT ASSETS			
Investments in associates	21	140,000	140,000
Plant and equipment	10	2,040,090	627,640
Deferred tax assets	18	2,236,784	2,121,908
Intangible assets	11	19,253,136	19,253,136
TOTAL NON-CURRENT ASSETS		<u>23,670,010</u>	22,142,684
TOTAL ASSETS		<u><u>44,175,461</u></u>	<u>43,592,771</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	5,493,415	4,915,343
Borrowings	14	13,249,235	13,156,568
Employee benefits	15	647,458	839,988
TOTAL CURRENT LIABILITIES		<u>19,390,108</u>	18,911,899
NON-CURRENT LIABILITIES			
Borrowings	14	388,478	-
Employee benefits	15	205,000	160,557
TOTAL NON-CURRENT LIABILITIES		<u>593,478</u>	160,557
TOTAL LIABILITIES		<u>19,983,586</u>	19,072,456
NET ASSETS		<u><u>24,191,875</u></u>	<u>24,520,315</u>
EQUITY			
Issued capital	16	25,915,489	25,915,489
Retained earnings		<u>(1,723,614)</u>	(1,395,174)
TOTAL EQUITY		<u><u>24,191,875</u></u>	<u>24,520,315</u>

The Group has initially applied AASB 16 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 117 and related interpretations.

Statement of Changes in Equity
For the Half-Year Ended 31 January 2020

	Issued Capital	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2019	25,915,489	(1,395,174)	24,520,315
Loss for the half-year	-	(328,440)	(328,440)
Transactions with owners in their capacity as owners	-	-	-
Balance at 31 January 2020	25,915,489	(1,723,614)	24,191,875
	Issued Capital	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2018	25,915,489	3,236,834	29,152,323
Profit for the half-year	-	478,497	478,497
Transactions with owners in their capacity as owners			
Dividends provided for or paid	-	(900,556)	(900,556)
Balance at 31 January 2019	25,915,489	2,814,775	28,730,264

Statement of Cash Flows
For the Half-Year Ended 31 January 2020

	31 January 2020	31 January 2019
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	28,575,010	35,687,642
Payments to suppliers and employees	(26,293,770)	(33,882,887)
Interest received	3 573	1,934
Finance costs	4 (518,718)	(381,509)
Income taxes paid	603,153	(514,620)
Net cash provided by/(used in) operating activities	<u>2,366,248</u>	<u>910,560</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of plant and equipment	(385,017)	(185,412)
Net cash provided by/(used in) investing activities	<u>(385,017)</u>	<u>(185,412)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	-	423,793
Repayment of borrowings	(742,100)	(114,630)
Repayment of lease liabilities	(743,833)	-
Dividends paid	-	(900,556)
Net cash provided by/(used in) financing activities	<u>(1,485,933)</u>	<u>(591,393)</u>
Net increase/(decrease) in cash and cash equivalents held	495,298	133,755
Cash and cash equivalents at beginning of year	<u>248,984</u>	<u>287,557</u>
Cash and cash equivalents at end of the half-year	7 <u>744,282</u>	<u>421,312</u>

The Group has initially applied AASB 16 using the cumulative effect method and has not restated comparatives. The comparatives have been prepared using AASB 117 and related interpretations.

Notes to the Financial Statements

For the Half-Year Ended 31 January 2020

The financial report covers Heritage Brands Ltd and its controlled entities ('the Group'). Heritage Brands Ltd is a for-profit Company limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was authorised for issue by the Directors on 20 March 2020.

Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

This condensed consolidated interim financial report for the reporting period ending 31 January 2020 has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*.

The interim financial report is intended to provide users with an update on the latest annual financial statements of Heritage Brands Ltd and controlled entities (the Group). As such it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. This condensed consolidated financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 31 July 2019, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements with the following addendum:

The results of discontinued operations are presented separately in the statement of profit or loss and other comprehensive income.

2 Change in Accounting Policy

Leases - Adoption of AASB 16

The Group has adopted AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method from 1 August 2019 and therefore the comparative information for the half-year ended 31 January 2019 has not been restated and has been prepared in accordance with AASB 117 *Leases* and associated Accounting Interpretations.

The impact of adopting AASB 16 is described below:

The Group as a lessee

Under AASB 117, the Group assessed whether leases were operating or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to the Group or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low value assets).

The Group has elected to use the exception to lease accounting for short-term leases and leases of low value assets, and the lease expense relating to these leases are recognised in the statement of profit or loss on a straight-line basis.

Notes to the Financial Statements

For the Half-Year Ended 31 January 2020

2 Change in Accounting Policy (continued)

Leases - Adoption of AASB 16 (continued)

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition, the Group has used the following expedients:

- contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16;
- lease liabilities have been discounted using the Group's incremental borrowing rate at 1 August 2019;
- right-of-use assets at 1 August 2019 have been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments;
- a single discount rate was applied to all leases with similar characteristics; and
- excluded leases with an expiry date prior to 31 July 2020 from the statement of financial position and lease expenses for these leases have been recorded on a straight-line basis over the remaining term.

Financial statement impact of adoption of AASB 16

The Group has recognised right-of-use assets of and lease liabilities of \$1,967,078 at 1 August 2019, for leases previously classified as operating leases.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 August 2019 was 7.5%.

3 Revenue and Other Income

	31 January 2020	31 January 2019
	\$	\$
Sales Revenue		
- Gross Sales	36,483,543	42,321,449
- Trading Terms	<u>(8,399,325)</u>	<u>(9,312,719)</u>
Net Sales	<u>28,084,218</u>	<u>33,008,730</u>
Other Revenue		
- Bank Deposit Interest	573	1,934
- Foreign Exchange Gains	85,813	200,316
- Other Revenue	<u>41,843</u>	<u>17,383</u>
Total Revenue	<u>28,212,447</u>	<u>33,228,363</u>
Other Income		
- Sundry Income	<u>30</u>	<u>593</u>
	<u>30</u>	<u>593</u>

Notes to the Financial Statements
For the Half-Year Ended 31 January 2020

4 Income and Expenses

Finance expenses

	31 January 2020	31 January 2019
	\$	\$
Interest Expense – External	337,225	381,509
Interest Expense – Shareholder Loans	181,493	-
Total finance expenses	518,718	381,509

Other expenses

Sales Commissions	1,106,031	1,235,305
IT Development and Marketing costs	545,872	413,230
Restructuring Costs	184,934	128,364
Other Expenses	926,885	1,229,126
Total	2,763,722	3,006,025

5 Income Tax Expense

(a) The major components of tax expense (income) comprise:

Current Tax Expense	137,960	129,181
Deferred Tax Expenses	55,864	69,042
Income tax expense	193,824	198,223

Notes to the Financial Statements
For the Half-Year Ended 31 January 2020

5 Income Tax Expense (continued)

(b) Reconciliation of income tax to accounting profit:

	31 January 2020	31 January 2019
	\$	\$
Profit	585,684	676,720
Tax	30.00%	30.00%
	175,705	203,016
Add:		
Tax effect of:		
- other non-allowable/(allowable) items	18,119	(4,793)
	193,824	198,223

6 Operating Segments

Identification of reportable segments

The Group operates in Australia in only one operational segment, therefore, for the half-year ended 31 January 2020, there has been no change from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

7 Cash and Cash Equivalents

	31 January 2020	31 July 2019
	\$	\$
Cash at bank and in hand	744,282	248,984
	744,282	248,984

8 Trade and Other Receivables

CURRENT

Contract Assets - Trade Receivables	8,991,086	9,354,192
Allowance for impairment	(18,680)	(3,680)
Allowances for rebates, incentives and discounts	(2,423,865)	(2,432,170)
	6,548,541	6,918,342
Loan to Heritage Luma Pty Limited	140,000	140,000
Prepayments	1,319,292	880,442
	8,007,833	7,938,784

Notes to the Financial Statements
For the Half-Year Ended 31 January 2020

9 Inventories

	31 January 2020	31 July 2019
	\$	\$
CURRENT		
At net realisable value:		
Finished Goods	13,839,117	13,434,079
Provision for slow moving and obsolete stock	(2,339,100)	(1,310,100)
Inventory in Transit	253,319	535,187
	11,753,336	12,659,166

10 Plant and equipment

Plant and equipment		
At cost	5,178,402	4,793,385
Accumulated depreciation	(4,340,016)	(4,167,048)
Total plant and equipment	838,386	626,337
Leasehold Improvements		
At cost	78,282	78,282
Accumulated amortisation	(77,652)	(76,979)
Total leasehold improvements	630	1,303
Right-of-Use - Property, Plant and Equipment		
At cost	1,967,078	-
Accumulated depreciation	(766,004)	-
Total Right-of-Use - Property, Plant and Equipment	1,201,074	-
	2,040,090	627,640

11 Intangible Assets

Intangible assets		
Goodwill		
Cost	12,596,828	12,596,828
Trademarks		
Cost	6,656,308	6,656,308
	19,253,136	19,253,136

Notes to the Financial Statements
For the Half-Year Ended 31 January 2020

12 Leases

Statement of Profit or Loss and Other Comprehensive Income

The amounts recognised in the statement of profit or loss and other comprehensive income relating to leases where the Group is a lessee are shown below:

	31 January 2020	31 January 2019
	\$	\$
Interest expense on lease liabilities	(61,440)	-
Depreciation of right-of-use assets	(766,004)	-
Office rental	(210,950)	(210,950)
Stand rental expense	-	(730,577)
	(1,038,394)	(941,527)

Statement of Cash Flows

Total cash outflow for leases	(1,016,223)	(941,527)
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13 Trade and Other Payables

	31 January 2020	31 July 2019
	\$	\$
CURRENT		
Trade payables	4,751,463	3,642,393
Employee benefits	286,659	349,706
Sundry payables and accrued expenses	455,293	923,244
	5,493,415	4,915,343

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

Notes to the Financial Statements
For the Half-Year Ended 31 January 2020

14 Borrowings

	31 January 2020 \$	31 July 2019 \$
CURRENT		
Unsecured liabilities:		
Insurance Premium Finance	52,245	208,983
Lease liabilities	834,767	-
Secured liabilities:		
Bank loans	9,362,223	9,947,585
Shareholder Loans	3,000,000	3,000,000
	<u>13,249,235</u>	<u>13,156,568</u>
NON-CURRENT		
Unsecured liabilities:		
Lease liabilities	388,478	-
	<u>388,478</u>	<u>-</u>

Bank Loan Facility

As at 31 January 2020, the Consolidated Group had a credit facility of \$15,600,000 (31 July 2019: \$16,000,000) of which \$6,237,777 (31 July 2019: \$6,052,415) is unused.

The Bank Facility has been secured over:

- first registered general security agreement over the assets and undertakings of each company in the Group;
- unlimited guarantee and indemnity given by each of each company in the Group;
- Right of entry deed with respect to property at 30 Bando Road, Springvale, Victoria; and
- Flawed asset arrangement over any cash deposits held with the Bank of Melbourne.

Under the terms of the Bank Facility, the Group is required to comply with the following financial covenants on a six-monthly basis:

- A capital ratio of no less than 15%;
- Minimum EBITDA of \$2,000,000 excluding any impacts of non-cash inventory impairments up to \$1,000,000; and
- A stock turn ratio of no less than 2.30 times.

Defaults and breaches

During the current half-year, there were no defaults or breaches on any of the loans.

Notes to the Financial Statements

For the Half-Year Ended 31 January 2020

14 Borrowings (continued)

Shareholder Loan Facility

A short term secured loan facility for a maximum amount of up to \$4,000,000 has been made available to the Group from three of its substantial shareholders. The transaction was finalised in June 2019. The initial drawdown was for \$3,000,000. No further amounts have been drawn down up to the end of the financial year.

Material Conditions of the shareholder loan are as follows:

- The loan facility is \$4,000,000, of which \$1,000,000 remains unused at 31 January 2020;
- An establishment fee of 2% was charged;
- Interest is charged at 12% per annum payable monthly in arrears;
- The shareholder loan is due for repayment on 12 June 2020; and
- The loan is secured by a second registered general security agreement over the assets and undertakings of each company in the Group consented to by the Bank of Melbourne.

The carrying amounts of assets pledged as collateral for borrowings are:

	31 January 2020 \$	31 July 2019 \$
Financial assets that have been pledged as part of the total collateral for the benefit of Bank of Melbourne are as follows:		
Cash and cash equivalents	744,282	248,984
Trade and other receivables	8,007,833	7,938,784
Inventories	11,753,336	12,659,166
	<u>20,505,451</u>	<u>20,846,934</u>

15 Employee Benefits

CURRENT LIABILITIES

Annual leave	352,907	491,400
Long service leave	294,551	348,588
	<u>647,458</u>	<u>839,988</u>

Notes to the Financial Statements
For the Half-Year Ended 31 January 2020

15 Employee Benefits (continued)

	31 January 2020 \$	31 July 2019 \$
NON-CURRENT LIABILITIES		
Long service leave	205,000	160,557
	<u>205,000</u>	<u>160,557</u>

16 Issued Capital

1,801,111,087 Ordinary Shares (2019: 1,801,111,087)	25,915,489	25,915,489
	<u>25,915,489</u>	<u>25,915,489</u>

17 Leasing Commitments

Operating leases

Minimum lease payments under non-cancellable operating leases:

- not later than one year	190,792	1,677,954
- between one year and five years	-	761,741
	<u>190,792</u>	<u>2,439,695</u>

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. Provisions within the lease agreement require the minimum lease payment shall be at the current rate for 5 years. The lease expires in 2020.

18 Tax assets and liabilities

Current Tax Asset

	31 January 2020 \$	31 July 2019 \$
Current tax receivable	-	603,153
	<u>-</u>	<u>603,153</u>

Deferred Tax Assets

Deferred tax assets	2,236,784	2,121,908
Total	<u>2,236,784</u>	<u>2,121,908</u>

Notes to the Financial Statements

For the Half-Year Ended 31 January 2020

19 Dividends

No dividends were declared or paid during the half-year (2019: \$900,556).

20 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2020	Percentage Owned (%)* 2019
Subsidiaries:			
Heritage Brands (Australia) Pty Ltd	Australia	100	100
Innoxia Group Pty Ltd	Australia	100	100
Innoxia Holdings Pty Ltd	Australia	100	100
Innoxia Marks Pty Ltd	Australia	100	100
Incolabs Pty Ltd	Australia	100	100
Heritage Le Tan Pty Ltd	Australia	100	100

*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

21 Interests in Associates

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2020	Percentage Owned (%)* 2019
Associates:			
Heritage Luma Pty Ltd	Australia	35	35

*The percentage of ownership interest held is equivalent to the percentage voting rights for all associates.

	31 January 2020	31 July 2019
Associates:		
Investment in Heritage Luma Pty Limited	140,000	140,000

22 Related Parties

Transactions with related parties

Director fees of \$93,338 (2019: \$87,588) were paid or payable to the directors during the half-year.

Notes to the Financial Statements

For the Half-Year Ended 31 January 2020

23 Discontinued Operations

During the half-year the Group discontinued certain brands.

Financial information relating to the discontinued operations is set out below.

The financial performance of the discontinued operations which is included in loss from discontinued operations is as follows:

	31 January 2020	31 July 2019
	\$	\$
Revenue	-	-
Expenses – Stock Provision	1,029,000	-
Loss before income tax	(1,029,000)	-
Loss attributable to members of the parent entity	(1,029,000)	-
Income tax benefit	308,700	-
Total loss after tax attributable to the discontinued operation	<u>(720,300)</u>	-

No amounts are recorded in the statement of financial position with regard to the discontinued operations.

24 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 January 2020 (31 January 2019: None). The Directors are closely monitoring the outbreak of the Novel Coronavirus. While at this stage it's too early to assess financial impacts to the Company, should there be a sustained material impact on consumption of the Company's products, this would likely impact future earnings.

25 Events Occurring After the Reporting Date

The financial report was authorised for issue on 20 March 2020 by the board of directors.

No matters or circumstances except for the matter in Note 24 and repeated below have arisen since the end of the financial half-year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

The Directors are closely monitoring the outbreak of the Novel Coronavirus. While at this stage it's too early to assess financial impacts to the Company, should there be a sustained material impact on consumption of the Company's products, this would likely impact future earnings.

26 Statutory Information

The registered office and principal place of business of the company is:

Heritage Brands Ltd
30 Bando Road
Springvale, VIC 3171

Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 20 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the consolidated group's financial position as at 31 January 2020 and of its performance for the half-year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director



Maxim Krok

Dated 20 March 2020

ROTHSAY

CHARTERED ACCOUNTANTS

HERITAGE BRANDS LTD AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Heritage Brands Ltd:

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Heritage Brands Ltd ("the Company"), which comprises the consolidated statement of financial position as at 31 January 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 for Heritage Brands Ltd (the "Group"). The Group comprises the Company and the entities it controlled during that half-year.

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 AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* and for such internal control as the directors determine 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 Australian 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, we have become aware of any matter that makes us believe that the 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 31 January 2020 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*. As the auditor of Heritage Brands Ltd, 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.

Independence

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

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

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HERITAGE BRANDS LTD AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REVIEW REPORT (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Heritage Brands Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 January 2020 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, and the *Corporations Regulations 2001*.

Rothsay Chartered Accountants

Daniel Dalla

Partner

Sydney, 20 March 2020