

Heritage Brands Limited and Controlled Entities

ABN 91 081 149 635

Annual Report

For the Year Ended 31 July 2016

Contents

For the Year Ended 31 July 2016

	Page
Annual Report	
Chairman's Report	(i)
Corporate Governance Statement	1
Directors' Report	4
Auditor's Independence Declaration under Section 307C of the Corporations Act 2001	12
Consolidated Statement of Profit or Loss and Other Comprehensive Income	13
Consolidated Statement of Financial Position	14
Consolidated Statement of Changes in Equity	15
Consolidated Statement of Cash Flows	16
Notes to the Consolidated Financial Statements	17
Directors' Declaration	56
Independent Auditor's Report	57
Additional Information	59

Chairman's Report for the Year ended 31st July 2016

Dear Shareholder,

The Board of Directors and the Management team are pleased to advise that Heritage Brands Limited (HBL) has delivered a strong set of results for the year ended 31st July 2016 as follows:

\$'000's	2016	2015	% Variance
Gross Sales Revenue	63,091	37,617	+68%
EBITDA	5,989	2,623	+128%
Earnings After Tax	4,704	1,470	+220%

The above results have been achieved in a year that competition and retail partners continued to increase promotional intensity. It is particularly pleasing to see that the strategies implemented by HBL across our portfolio in response to these ongoing pressures continued to gain momentum and ensure the business remains on a sustainable profit growth path.

HBL competes in the Health, Beauty and Aromatherapy market, which is one of the largest FMCG categories in Australia and internationally. We are an entrepreneurial company that enhances the lives of consumers with Australian assurance of quality, value and innovation.

During the year we acquired Le Tan which is a brand synonymous with Suncare in Australia, a household name and market leader in its category. The 2015/16 financial improvement is partly due to the acquisition of Le Tan, but it is very pleasing that the underlying "traditional" business has also posted a significant improved sales and profit growth year on year with all categories delivering double digit growth.

Our management team and Board of Directors believe that Australian provenance and ethical brands in Skincare, Suncare, Cosmetics and Wellbeing will continue to grow ahead of category norms both locally and abroad. In this regard we are pleased that Heritage's exclusive distribution agreement into New Zealand continues to perform above expected growth rates and our expansion into new markets of Singapore, Malaysia and Korea have been developed.

Our Balance Sheet (Statement of Financial Position) remains healthy and we have an appetite to pursue further investment opportunities which fit with our strategic intent.

As at today's date, Heritage has continued the good results experienced in the last financial year and our sales and EBITDA for August 2016 were ahead of last year. Subject to no unforeseen circumstances, senior management are forecasting an improved Sales and EBITDA for 2016/17 financial year.



David Fairfull
Chairman

22nd September 2016

Corporate Governance Statement

31 July 2016

The Board of Heritage Brands Limited (the Company) is committed to maintaining the highest standards of corporate governance. Corporate governance is about having a set of values that underpin the Company's everyday activities and values that ensure fair dealing, transparency of actions and protecting the interests of stakeholders.

The Company has been guided by the principles of corporate governance promoted by the National Stock Exchange (NSX). This statement outlines the main corporate governance practices followed by the Company, which take into account the operational requirements of the Company. The Company's corporate governance framework includes a Board Charter and various policies, which are reviewed each year.

Role of the Board and Management

The Board's primary role is the overall operation and stewardship of the Company for the protection and enhancement of long term shareholder value.

To fulfil this role, the Board is responsible for setting the overall strategic direction, financial objectives and operational goals of the Company and monitoring management's implementation of these. The Board is also responsible for overseeing succession planning for directors and senior management, determining remuneration for senior management and for directors (within shareholder approved limits), identifying and managing risk, monitoring the integrity of internal control and management information systems and approving and monitoring financial and other reporting.

The Board has delegated responsibility for the day-to-day operations and administration of the Company to the senior management team and these responsibilities are delineated by formal delegated authority. These responsibilities are reviewed against appropriate performance indices and updated at regular intervals including annual salary reviews and setting of the Company's key milestones.

Board size and composition

The Board determines its size and composition, subject to the limits imposed by the Company's Constitution, which requires a minimum of three and a maximum of ten directors. From time to time the Board may review the appropriate number of directors and may resolve to appoint additional directors who possess skills that will add value of the Board. New appointments are to be ratified by the members at the next Annual General Meeting.

Role of Chairman

The Chairman, who is elected by the Board, presides over Board meetings and General Meetings of the Company. The Chairman's responsibilities include providing effective leadership and ensuring effective performance of the Board and any committees and representing the views of the Board to all relevant stakeholders. The Chairman is a non executive director.

Board meetings

Board meetings are held in accordance with a calendar agreed to by Board members. The Chairman or any Director may convene additional meetings if required. The Chairman establishes meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year.

Access to information and advice

All Directors have unrestricted access to Company's records and information. The Board collectively, and each Director individually, has the right to seek independent professional advice at the Company's expense to help them carry out their responsibilities. The Chairman's prior approval is required, and it may not be unreasonably withheld and, in its absence, Board approval must be sought before committing to independent professional advice.

Corporate Governance Statement

31 July 2016

Committees

Functions that are commonly delegated to committees are performed by specific members of the Board and the Chief Executive Officer. In addition there are specific committees as follows:

- Audit, Risk and Corporate Governance Committee; and
- Remuneration Committee

Each of the above has a Chairman and meets when necessary.

Risk Management

Approach to risk management

Taking and managing risk are central to everyday business and to building shareholder value. The Company's approach is to identify, assess and control the risks which affect its business. The intention is to enable risks to be balanced against appropriate rewards. The risk management approach links the Company's vision and values, objectives and strategies, and procedures and training.

Risk management roles and responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. The Chief Executive Office (CEO) and Chief Financial Officer (CFO) are responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

Financial reporting

The Board receives monthly reports about the financial condition and operational results of the Company. The CFO periodically provides formal statements to the Board and is responsible for ensuring that:

- the Company's financial statements present a true and fair view of Company's financial position and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

Internal audit

There is no internal audit department. The assessment of the control system is undertaken by the CEO, the CFO and the Board. The Audit committee also assists in the review of the Internal Control System.

Conflict of interest

Any Director who has a conflict of interest must notify each other Director of this conflict prior to, or at the latest, at the first Board meeting subsequent to becoming aware of the conflict. Any services provided by Directors or transactions involving entities related to Directors must be on arm's length terms and approved by the Board.

Corporate Governance Statement

31 July 2016

Code of conduct

The Company has developed a Code of Conduct which deals with, amongst other areas, conflict of interest, personal gains and gifts, confidentiality, compliance with the law and policies and the work environment.

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Trading in Company securities

The Board has adopted a Securities Dealing Policy, which applies to all Directors and employees. The policy specifies the periods during which the purchase and sale of the securities may not occur and sets out a notification procedure concerning transactions.

Communication with shareholders

The Board has adopted a Continuous Disclosure Policy and has implemented a procedure to ensure the prompt release to the NSX of price sensitive information. Shareholder newsletters are sent to shareholders at times deemed appropriate by the Board.

All Board members and the external auditor attend the Annual General Meeting and are available to answer questions. Notice of the AGM, and related papers, is sent to all Shareholders at least 28 days before the meeting. Resolutions are proposed on each substantially separate issue, including in relation to the Annual Accounts and the Directors' Remuneration Report.

Directors' Report

31 July 2016

The directors present their report, together with the financial statements of the Group, being Heritage Brands Limited (the Company) and its controlled entities, for the financial year ended 31 July 2016.

1. General information

Information on directors

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

FAIRFULL David John	Non-Executive Chairman
KROK Maxim	Non-Executive Director
GENDIS Constantinos	Managing Director
MASON Stephen Leslie	Non-Executive Director
COX Peter Henry Townsend	Non-Executive Director, resigned 30 November 2015
McCARTNEY William Thomson	Non-Executive Director, appointed on 1 September 2015

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activities and significant changes in nature of activities

The principal activities of the Group during the financial year were the selling and distribution of branded cosmetics, toiletries, skincare, nail care products, oils and fragrances.

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

Directors' Report

31 July 2016

2. Operating results and review of operations for the year

Operating results

Heritage Brands Limited has delivered a significant increase in profitability for the year ended 31 July 2016. Gross sales are up 68% on last year and this is a combination of a full year of Le Tan trading, but also reflects baseline sales which are 20% up on last year on a comparative basis.

The iconic Australis brand has performed particularly well and sales are 56% up on last year's trading. Profitability of the group has followed a similar trend and the increase in Profit for the Year over last year is a healthy 220% up.

Increased margins, despite a weaker dollar assisted in achieving the favourable result.

The outlook for the group remains positive and management is focused on adding shareholder value through organic as well as acquisitive growth.

Review of operations

Net Revenue for the year was \$49,981,920 (2015: \$32,362,657). Profit after tax for the year was \$4,704,332 (2015: \$1,469,876).

The increase in sales is attributable to the acquisition last year of the Le Tan brand as well as a solid performance by baseline brands. Lists of Australis and Mode into grocery channels was a positive result. While employment cost have increased, the company is well placed to maximise the ongoing growth cycle.

The rapid growth of the company has meant an increase in working capital and while inventory is considerably higher than the previous year on aggregate represents 135 days forward cover. Debtors remain on track to expectation of 45 days outstanding.

3. Financial review

Financial position

The net assets of the Group have increased by \$4,704,332 from \$17,993,765 at 31 July 2015 to \$22,698,097 at 31 July 2016. This increase is due to the profit earned and retained by the Group.

The Group's improved financial position has enabled it to complete the recent acquisition from internal cash flows, while maintaining a satisfactory working capital ratio.

The Directors believe the Group is in a stable financial position and able to expand and grow its current operations.

Directors' Report
31 July 2016

4. Summary of Performance

		2012	2013	2014	2015	2016
Gross Revenue	\$'000	30,857	33,800	35,606	37,617	63,091
Trading Terms	\$'000	4,176	4,514	5,572	5,878	13,431
Net Revenue	\$'000	26,681	29,286	30,034	31,739	49,661
EBITDA	\$'000	2,503	1,913	1,124	2,623	5,989
Net profit/(loss) before tax	\$'000	1,260	791	28	1,470	4,941
Total assets	\$'000	16,909	17,366	19,703	32,227	39,808
Total liabilities	\$'000	11,017	10,682	12,992	14,233	15,978
Shareholders' funds	\$'000	5,892	6,683	6,711	17,993	22,698
Earnings per share	Cents	0.28	0.17	0.01	0.32	0.26
Dividend per share	Cents	-	-	-	-	-
Net tangible assets per share	Cents	2.00	2.10	2.60	0.80	1.20
Price earnings ratio*	x	7.99	12.72	246.17	6.20	12.6

*The shares of the Company were last traded at 3.3 cents for the year ended 31 July 2016.

5. Other items

Significant changes in state of affairs

There have been no significant changes in the state of affairs of entities in the Group during the year.

Dividends paid or recommended

No dividends were paid or declared for payment during the year.

Events after the reporting date

No matters or circumstances have arisen since the end of the financial 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.

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, Fing'rs, Revlon Nails, In Essence, Oil Garden, Luma, Mine Tan, Thank You and Skin Republic.

Environmental issues

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

Directors' Report

31 July 2016

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Christopher William McGibbon CA (SA) has been the company secretary since 9 February 2009. Prior to this role, Chris was the Managing Director of Innoxia Holdings Pty Ltd.

Meetings of directors

During the financial year, 15 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
FAIRFULL David John	12	10	2	2	3	3
KROK Maxim	12	11	-	-	3	3
GENDIS Constantinos	12	12	-	-	-	-
MASON Stephen Leslie	12	11	2	2	-	-
COX Peter Henry Townsend	2	2	1	1	-	-
McCARTNEY William Thomson	9	10	-	-	1	1

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 premiums paid amounted to \$16,635 (2015: \$13,391).

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

Options

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 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.

Directors' Report

31 July 2016

Non-audit services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 31 July 2016:

	2016	2015
	\$	\$
Taxation services (excludes GST)	8,726	5,460
	8,726	5,460

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 31 July 2016 has been received and can be found on page 12 of the financial report.

Remuneration report (audited)

Remuneration policy

The remuneration policy of Heritage Brands Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Heritage Brands Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- the remuneration policy has been developed by the Remuneration Committee and approved by the Board following professional advice from independent external consultants;
- all key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, and performance incentives;
- performance incentives are based on predetermined key performance indicators; and
- the Remuneration Committee reviews key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

Directors' Report

31 July 2016

Remuneration report (audited) continued

Remuneration policy continued

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the law, which is currently 9.50%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting, the current maximum is \$133,500 which was approved at the 2015 AGM.

Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The method applied to achieve this aim is a performance-based bonus based on key performance indicators to encourage the alignment of personal and shareholder interests. The Company believes this policy has been appropriate.

Performance conditions linked to remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

Directors' Report

31 July 2016

Remuneration report (audited) continued

Performance conditions linked to remuneration continued

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external of the Group at this time.

Service Agreements

The remuneration and other terms of employment for the Managing Director and senior executives are set out in formal service agreements as summarised below.

All service agreements are for an unlimited duration. The agreements for executives (other than the Managing Director, Chief Executive Officer and Chief Finance Officer which require three month's notice) may be terminated by giving six weeks notice (except in cases of termination for cause where termination is immediate).

In cases of resignation, no separation payment is made to the executive, except for amounts due and payable up to the date of ceasing employment, including accrued leave entitlements.

Remuneration details for the year ended 31 July 2016

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group.

Table of benefits and payments

	Short term		Post	Total
	Cash salary fees	Bonus	employment, pension and superannuation	
	\$	\$	\$	\$
2016				
Directors				
FAIRFULL David John	29,333	-	-	29,333
KROK Maxim	24,667	-	-	24,667
GENDIS Constantinos	365,304	198,402	53,544	617,250
MASON Stephen Leslie	26,333	-	-	26,333
McCARTNEY William Thomson	20,417	-	-	20,417
COX Peter Henry Townsend	2,333	-	-	2,333
KMP				
McGIBBON Christopher William	273,980	110,489	36,517	420,986
	742,367	308,891	90,061	1,141,319

Directors' Report
 31 July 2016

Remuneration report (audited) continued

Remuneration details for the year continued ended 31 July 2016

2015	Short term		Post	Total
	Cash salary fees	Bonus	employment, pension and superannuation	
Directors	\$	\$	\$	\$
FAIRFULL David John	11,500	-	-	11,500
KROK Maxim	9,500	-	-	9,500
BEINART Steven	1,750	-	-	1,750
GOODEY Stephen Donald Alfred	100,799	-	7,626	108,425
MASON Stephen Leslie	9,000	-	-	9,000
McCARTNEY William Thomson	1,750	-	-	1,750
COX Peter Henry Townsend	6,500	-	-	6,500
SMITH Brent Charles Albert	1,750	-	-	1,750
GENDIS Constantinos	233,994	-	22,229	256,223
KMP				
McGIBBON Christopher William	257,186	-	24,433	281,619
	633,729	-	54,288	688,017

Securities received that are not performance related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

Cash performance-related bonuses

No amounts vest in future financial years in respect of the bonus schemes for the current financial year.

This Director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Director:
 FAIRFULL David John

Dated: 22nd September 2016

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

As lead auditor of Heritage Brands Limited for the year ended 31 July 2016, 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 audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Heritage Brands Limited and the entities it controlled during the year.



Frank Vrachas
Partner

Rothsay Chartered Accountants

Sydney, 22 September 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 July 2016

	Note	2016 \$	2015 \$
Net Revenue	3	49,981,920	32,362,657
Other income	3	9,384	23,595
Changes in inventories of finished goods	4	(27,868,705)	(18,521,482)
Employee benefits expense		(8,194,310)	(5,334,140)
Advertising and promotion		(4,937,602)	(3,005,939)
Freight and cartage		(164,069)	(165,097)
Occupancy expenses		(436,597)	(426,741)
Depreciation and amortisation expense		(317,004)	(231,077)
Finance costs	4	(649,787)	(922,209)
Other expenses		(2,482,003)	(2,309,691)
Profit before income tax		4,941,227	1,469,876
Income tax expense	5	236,895	-
Profit for the year		4,704,332	1,469,876
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		4,704,332	1,469,876
Profit attributable to:			
Members of the parent entity		4,704,332	1,469,876
		4,704,332	1,469,876
Total comprehensive income attributable to:			
Members of the parent entity		4,704,332	1,469,876
		4,704,332	1,469,876
Earnings per share			
Basic and diluted earnings per share (cents)	8	0.26	0.32

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
As at 31 July 2016

	Note	2016 \$	2015 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	167,933	570,487
Trade and other receivables	10	7,336,498	5,566,300
Inventories	11	12,708,467	7,857,593
TOTAL CURRENT ASSETS		20,212,898	13,994,380
NON-CURRENT ASSETS			
Property, plant and equipment	13	982,677	620,317
Deferred tax assets	17	227,955	359,006
Intangible assets	14	17,253,136	17,253,136
TOTAL NON-CURRENT ASSETS		18,463,768	18,232,459
TOTAL ASSETS		38,676,666	32,226,839
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	8,048,746	7,400,398
Current tax liability	5	105,844	-
Borrowings	16	7,171,018	6,269,651
Employee benefits	18	393,142	331,489
TOTAL CURRENT LIABILITIES		15,718,750	14,001,538
NON-CURRENT LIABILITIES			
Employee benefits	18	259,819	231,536
TOTAL NON-CURRENT LIABILITIES		259,819	231,536
TOTAL LIABILITIES		15,978,569	14,233,074
NET ASSETS		22,698,097	17,993,765
EQUITY			
Issued capital	19	25,915,489	25,915,489
Retained earnings		(3,217,392)	(7,921,724)
TOTAL EQUITY		22,698,097	17,993,765

Consolidated Statement of Changes in Equity
For the Year Ended 31 July 2016

2016

	Ordinary Shares	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2015	25,915,489	(7,921,724)	17,993,765
Profit for the year	-	4,704,332	4,704,332
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	4,704,332	4,704,332
Transactions with owners in their capacity as owners	-	-	-
Issue of shares	-	-	-
Transaction costs	-	-	-
Balance at 31 July 2016	25,915,489	(3,217,392)	22,698,097

2015

	Ordinary Shares	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2014	16,102,935	(9,391,600)	6,711,335
Profit for the year	-	1,469,876	1,469,876
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	1,469,876	1,469,876
Transactions with owners in their capacity as owners	-	-	-
Issue of shares	10,076,163	-	10,076,163
Transaction costs	(263,609)	-	(263,609)
Balance at 31 July 2015	25,915,489	(7,921,724)	17,993,765

Consolidated Statement of Cash Flows
For the Year Ended 31 July 2016

	2016	2015
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	48,812,916	32,191,108
Payments to suppliers and employees	(46,326,489)	(28,730,051)
Interest received	3 2,884	4,183
Finance costs paid	(649,787)	(922,209)
Net cash provided by (used in) operating activities	23(a) 1,839,524	2,543,031
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for intangible assets	-	(7,663)
Purchase of property, plant and equipment	13(a) (680,818)	(468,569)
Payments to acquire subsidiary, net of cash acquired	12(b) (2,462,627)	(10,000,000)
Net cash used in investing activities	(3,143,445)	(10,476,232)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issue of shares	19(a) -	10,076,163
Share issue transaction costs	19(a) -	(263,609)
Proceeds from borrowings	901,367	2,769,496
Repayment of borrowings	-	(4,268,746)
Net cash provided by financing activities	901,367	8,313,304
Net increase (decrease) in cash and cash equivalents held	(402,554)	380,103
Cash and cash equivalents at beginning of financial year	570,487	197,384
Cash and cash equivalents at end of financial year	9 167,933	570,487

Notes to the Consolidated Financial Statements

For the Year Ended 31 July 2016

This financial report covers the consolidated financial statements and notes of Heritage Brands Limited and Controlled Entities (the 'Group'). Heritage Brands Limited is a for profit company domiciled in Australia. The financial statements were authorised for issue by the Board of Directors on 22nd September 2016.

Each of the entities within the Group prepares 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 separate financial statements and notes of the parent entity, Heritage Brands Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001. The parent entity financial information is disclosed in note 2.

1 Summary of Significant Accounting Policies

(a) Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are prepared on an accruals basis and are based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Principles of Consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group have been eliminated in full for the purpose of these consolidated financial statements.

Appropriate adjustments have been made to a controlled entity's financial statements where the accounting policies used by those entities were different from those adopted in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(c) Business Combinations

Business combinations are accounted for by applying the acquisition method which requires an acquiring entity to be identified in all cases. The acquisition date under this method is the date that the acquiring entity obtains control over the acquired entity.

The fair value of identifiable assets and liabilities acquired are recognised in the consolidated financial statements at the acquisition date.

Goodwill or a gain on bargain purchase may arise on the acquisition date. This is calculated by comparing the consideration transferred and the amount of non-controlling interest in the acquiree with the fair value of the net identifiable assets acquired. Where consideration is greater than the assets, the excess is recorded as goodwill. Where the net assets acquired are greater than the consideration, the measurement basis of the net assets are reassessed and then a gain from bargain purchase recognised in profit or loss.

All acquisition-related costs are recognised as expenses in the periods in which the costs are incurred except for costs to issue debt or equity securities.

Any contingent consideration which forms part of the combination is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not remeasured and the settlement is accounted for within equity. Otherwise subsequent changes in the value of the contingent consideration liability are measured through profit or loss.

(d) Comparative Amounts

Comparatives are consistent with prior years, unless otherwise stated.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average costs basis and are net of any rebates and discounts received.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the costs necessary to make the sale. Net realisable value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

(f) Property, Plant and Equipment

Classes of property, plant and equipment are measured using the cost model as specified below.

Where the cost model is used, the asset is carried at its cost less any accumulated depreciation and any impairment losses. Costs include purchase price, other directly attributable costs and the initial estimate of costs of dismantling and restoring the asset, where applicable.

Land and buildings

Land and buildings are measured using the cost model.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(f) Property, Plant and Equipment continued

Plant and equipment

Plant and equipment are measured using the cost model.

Depreciation

The depreciable amount of all property, plant and equipment, except for freehold land is depreciated on a straight-line method from the date that management determine that the asset is available for use.

Assets held under a finance lease and leasehold improvements are depreciated over the shorter of the term of the lease and the assets useful life.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed asset class	Depreciation rate
Plant and Equipment	7.5-40%
Leasehold improvements	7.5-40%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

When an assets is disposed, the gain or loss is calculated by comparing proceeds received with its carrying amount and is taken to profit or loss.

(g) Financial instruments

Financial instruments are recognised initially using trade date accounting, i.e. on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

Financial Assets

Financial assets are divided into the following categories which are described in detail below:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant to the way it is measured and whether any resulting income and expenses are recognised in profit or loss or in other comprehensive income.

All income and expenses relating to financial assets are recognised in the consolidated statement of profit or loss and other comprehensive income in the 'finance income' or 'finance costs' line item respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets.

After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss.

The Group's trade and most other receivables fall into this category of financial instruments.

Discounting is omitted where the effect of discounting is considered immaterial.

Significant receivables are considered for impairment on an individual asset basis when they are past due at the reporting date or when objective evidence is received that a specific counterparty will default.

The amount of the impairment is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. When confirmation has been received that the amount is not collectable, the gross carrying value of the asset is written off against the associated impairment provision.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

In some circumstances, the Group renegotiates repayment terms with customers which may lead to changes in the timing of the payments, the Group does not necessarily consider the balance to be impaired, however assessment is made on a case-by-case basis.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets:

- acquired principally for the purpose of selling in the near future;
- designated by the entity to be carried at fair value through profit or loss upon initial recognition; or
- which are derivatives not qualifying for hedge accounting.

The Group has no derivatives which are designated as financial assets at fair value through profit or loss.

Assets included within this category are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or expenses in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity. Investments are classified as held-to-maturity if it is the intention of the Group's management to hold them until maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, with revenue recognised on an effective yield basis. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. The Group's available-for-sale financial assets include listed securities and its investments.

Purchases and sales of available-for-sale investments are recognised on settlement date.

The investments in subsidiaries are reported at cost less any impairment charges, as their fair values cannot currently be reliably estimated.

All other available-for-sale financial assets are measured at fair value, with subsequent changes in value recognised in other comprehensive income.

Gains and losses arising from financial instruments classified as available-for-sale are only recognised in profit or loss when they are sold or when the investment is impaired.

In the case of impairment or sale, any gain or loss previously recognised in equity is transferred to the profit or loss.

Losses recognised in prior period consolidated income statements resulting from the impairment of debt securities are reversed through the income statement, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line items 'finance costs' or 'finance income'.

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities depending on the purpose for which the liability was acquired.

The Group's financial liabilities include borrowings, trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

Impairment of financial assets

At the end of the reporting period the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance accounts, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Available-for-sale financial assets

A significant or prolonged decline in value of an available-for-sale asset below its cost is objective evidence of impairment, in this case, the cumulative loss that has been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Any subsequent increase in the value of the asset is taken directly to other comprehensive income.

(h) Impairment of non-financial assets

At the end of each reporting period, the Group determines whether there is an evidence of an impairment indicator for assets.

Where this indicator exists and regardless for goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the assets is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(h) Impairment of non-financial assets continued

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

(i) Intangible Assets

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- the consideration transferred;
- any non-controlling interest; and
- the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The Group determines which method to adopt for each acquisition.

Under the 'full goodwill method', the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is not amortised but is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

Trademarks

Trademarks are recognised at cost of acquisition. Trademarks have an indefinite life and are carried at cost less any impairment losses.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(j) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments with original maturities of three months or less which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Bank overdrafts also form part of cash equivalents for the purpose of the statement of cash flows and are presented within current liabilities on the consolidated statement of financial position.

(k) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Defined contribution schemes

Obligations for contributions to defined contribution superannuation plans are recognised as an employee benefit expense in profit or loss in the periods in which services are provided by employees.

(l) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Borrowings

Secured and/or unsecured loans have been obtained. While some loans are interest free, these have not been discounted to present values. Carrying amounts therefore represent amounts expected to be repaid at settlement. Unsecured loans are considered to be repayable at call and therefore presented as current liabilities.

(n) Earnings per share

The Group presents basic and diluted earnings per share information for its ordinary shares.

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share adjusts the basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(o) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(p) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income relates to current income tax expense plus deferred tax expense (being the movement in deferred tax assets and liabilities and unused tax losses during the year).

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- taxable temporary differences arising on the initial recognition of goodwill; and
- temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax consequences relating to a non-monetary asset carried at fair value are determined using the assumption that the carrying amount of the asset will be recovered through sale.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current tax assets and liabilities are offset where there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(p) Income Tax continued

Deferred tax assets and liabilities are offset where there is a legal right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

Tax consolidated group

The Company and its wholly-owned Australian controlled entities have formed a tax-consolidated group under the legislation and as a consequence these entities are taxed as a single entity. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 August 2010.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

(q) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Notes to the Consolidated Financial Statements

For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(r) Revenue and other income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the entity and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

All revenue is stated net of the amount of goods and services tax (GST).

Sale of goods

Revenue is recognised on transfer of goods to the customer as this is deemed to be the point in time when risks and rewards are transferred and there is no longer any ownership or effective control over the goods.

Interest revenue

Interest is recognised using the effective interest method.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which it incurs them.

(t) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Notes to the Consolidated Financial Statements

For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(u) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period where the average rate approximates the rate at the date of the transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(v) Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

Key estimates - impairment of goodwill

In accordance with AASB 136 Impairment of Assets, the Group is required to estimate the recoverable amount of goodwill at each reporting period.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate and using a terminal value to incorporate expectations of growth thereafter.

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- timing and quantum of future capital expenditure;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

The Group prepares and approves next year's budget for its operations, which are used in the value in use calculations.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

The Group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in note 14 to the consolidated financial statements.

Key estimates - provision for slow/ obsolete stock

The provision for slow/ obsolete stock assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence. The Directors believe that provision for slow/ obsolete stock of \$270,834 (2015: \$256,284) is reasonable and that all other inventories are carried at their realisable values as at the end of the financial year.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

(v) Critical accounting estimates and judgments continued

Key judgments - provision for impairment of receivables

The value of the provision for impairment of receivables is estimated by considering the ageing of receivables, communication with the debtors and prior history.

Key judgments - taxes

Deferred tax assets

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

Key estimates - provisions

As described in the accounting policies, provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period. These estimates are made taking into account a range of possible outcomes.

Key estimates - property, plant and equipment residual values and useful lives

These assets are written down to their estimated residual value over their anticipated useful lives using the straight-line basis. Management reviews residual values annually considering market conditions and disposal values.

(w) Adoption of new and revised accounting standards

The Group has adopted all standards which became effective for the first time at 30 June 2016, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Group.

(x) New Accounting Standards and Interpretations

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. The following table summarises those future requirements, and their impact on the Group:

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

Standard Name	Effective date for entity	Requirements	Impact
AASB 9 Financial Instruments and amending standards AASB 2010-7 / AASB 2012-6 / AASB2013-9 / AASB 2014-1 / AASB 2014-7 / AASB2014-8	31 July 2019	Significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.	The available for sale investments held will be classified as fair value through OCI and will no longer be subject to impairment testing. Other impacts on the reported financial position and performance have not yet been determined.
AASB 15 Revenue from contracts with customers and amending standards AASB 2014-5	31 July 2020	AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.	The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

1 Summary of Significant Accounting Policies continued

Standard Name	Effective date for entity	Requirements	Impact
AASB 16 Leases	31 July 2020	The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs).	The Group will adopt this standard from 1 August 2019 but the impact of its adoption is yet to be assessed by the Group.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

2 Parent entity

The following information has been extracted from the books and records of the parent, Heritage Brands Limited and has been prepared in accordance with Australian Accounting Standards.

The financial information for the parent entity, Heritage Brands Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

	2016	2015
	\$	\$
Consolidated Statement of Financial Position		
Assets		
Current assets	-	-
Non-current assets	16,835,015	16,835,015
	<hr/>	<hr/>
Total Assets	16,835,015	16,835,015
Equity		
Issued capital	25,915,489	25,915,489
Retained earnings	(9,080,474)	(9,080,474)
Total Equity	16,835,015	16,835,015
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	<hr/>	<hr/>
Total comprehensive income	<hr/>	<hr/>

Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 July 2016 (31 July 2015: None).

Contractual commitments

The parent entity did not have any commitments as at 31 July 2016 (31 July 2015: None).

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

3 Revenue and Other Income

Revenue from continuing operations

	2016	2015
	\$	\$
Sales revenue		
- Net sale of goods	49,660,987	31,738,646
- royalty income	36,751	26,399
Total Sales Revenue	49,697,738	31,765,045
Finance income		
- interest on bank deposits	2,884	4,183
Finance income	2,884	4,183
Other revenue		
- foreign currency gains/(losses)	281,298	593,429
Total Revenue	49,981,920	32,362,657
	2016	2015
	\$	\$
Other Income		
Income from shared services	9,384	23,595

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

4 Result for the Year

(a) The result for the year includes the following specific expenses

	2016	2015
	\$	\$
Cost of sales	27,868,705	18,521,482
Finance Costs		
Financial liabilities measured at amortised cost:		
- Shareholders	-	371,095
- Other entities	649,787	551,114
Total finance costs	649,787	922,209
Other expenses:		
Superannuation contributions	543,557	399,347
Impairment of receivables:		
- Trade receivables	13,156	2,478
Total impairment of receivables	13,156	2,478
Rental expense on operating leases:		
- Minimum lease payments	436,597	426,741
Loss on disposal of property, plant and equipment	7	3,001
Write-down of inventories to net realisable value	36,341	10,042
Non-recurring legal and acquisition costs	-	206,863

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

5 Income Tax Expense

(a) The major components of tax expense comprise:

	2016	2015
Note	\$	\$
Current tax	105,844	429,307
Deferred tax	131,051	-
Recoupment of prior year tax losses	-	(429,307)
Total income tax expense	236,895	-

(b) Reconciliation of income tax to accounting profit:

	2016	2015
	\$	\$
Profit	4,941,227	1,469,876
Tax	30%	30%
	1,482,368	440,963
Add:		
Tax effect of:		
- non-deductible depreciation and amortisation	(538)	(28)
- other non-allowable items	123,562	(11,628)
	123,024	429,307
Less:		
Tax effect of:		
- recoupment of prior year tax losses not previously brought to account	(1,368,497)	(429,307)
Income tax expense	236,895	-

6 Key Management Personnel Disclosures

Key management personnel remuneration included within employee expenses for the year is shown below:

	2016	2015
	\$	\$
Short-term employee benefits	1,051,258	633,729
Post-employment benefits	90,061	54,288
	1,141,319	688,017

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 July 2016.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

6 Key Management Personnel Disclosures continued

Key management personnel shareholdings

The number of ordinary shares in Heritage Brands Limited held by each key management person of the Group during the financial year is as follows:

	Balance at beginning of year	Other changes during the year	Balance at the end of year
31 July 2016			
Directors			
GENDIS Constantinos	13,333,333	-	13,333,333
Other KMP			
McGIBBON Christopher William	8,003,333	-	8,003,333
	21,336,666	-	21,336,666

(a) Key management personnel shareholdings

The number of ordinary shares in Heritage Brands Limited held by each key management person of the Group during the financial year is as follows:

	Balance at beginning of year	Other changes during the year	Balance at end of year
31 July 2015			
Directors			
GENDIS Constantinos	-	13,333,333	13,333,333
Other KMP			
McGIBBON Christopher William	3,070,000	4,933,333	8,003,333
	3,070,000	18,266,666	21,336,666

Full disclosure of all Directors Shareholdings can be found in the Directors' Report.

Other key management personnel transactions

For details of other transactions with key management personnel, refer to Note 24: Related Party Transactions.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

7 Remuneration of Auditors

	2016	2015
	\$	\$
Remuneration of the auditor for:		
- auditing or reviewing the financial report	44,762	50,500
- taxation services provided by related practice of auditor	8,726	5,460
	<u>53,488</u>	<u>55,960</u>

8 Earnings per Share

(a) Reconciliation of earnings to profit or loss from continuing operations

	2016	2015
	\$	\$
Profit for the year	4,704,332	1,469,876
Earnings used to calculate basic EPS from continuing operations	<u>4,704,332</u>	<u>1,469,876</u>
Earnings used in the calculation of dilutive EPS from continuing operations	<u>4,704,332</u>	<u>1,469,876</u>

(b) Earnings used to calculate overall earnings per share

	2016	2015
	\$	\$
Earnings used to calculate overall earnings per share	4,704,332	1,469,876
Earnings used in the calculation of dilutive EPS from continuing operations	<u>4,704,332</u>	<u>1,469,876</u>

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2016	2015
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	1,801,111,087	457,622,635
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>1,801,111,087</u>	<u>457,622,635</u>

9 Cash and cash equivalents

	2016	2015
	\$	\$
Cash at bank and in hand	167,933	570,487
Balance as per Consolidated Statement of Cash Flow	<u>167,933</u>	<u>570,487</u>

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

10 Trade and other receivables

	2016	2015
	\$	\$
CURRENT		
Trade receivables	7,514,995	5,993,858
Provision for impairment	10(a) (6,562)	(5,403)
Provision for rebates, incentives and discounts	(1,296,868)	(952,391)
	6,211,565	5,036,064
Prepayments	1,118,733	319,214
Other receivables	6,200	211,022
Total current trade and other receivables	7,336,498	5,566,300

(a) Impairment of receivables

Reconciliation of changes in the provision for impairment of receivables is as follows:

	2016	2015
	\$	\$
Balance at beginning of the year	5,403	5,967
Additional impairment loss recognised	13,156	2,478
Provision used	(11,997)	(3,042)
Balance at end of the year	6,562	5,403

Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The class of assets described as 'trade and other receivables' is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with any impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

10 Trade and other receivables continued

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Gross amount	Past due and impaired	Not impaired
	\$	\$	\$
2016			
Trade and term receivables	7,514,995	6,562	7,508,433
Other receivables	6,200	-	6,200
Total	<u>7,521,195</u>	<u>6,562</u>	<u>7,514,633</u>
2015			
Trade and term receivables	5,993,858	5,403	5,988,455
Other receivables	211,022	-	211,022
Total	<u>6,204,880</u>	<u>5,403</u>	<u>6,199,477</u>

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

(b) Collateral held as security

A fixed and floating charge over trade receivables and inventory has been provided for certain debt. Refer to note 16(a) for further details.

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

11 Inventories

	2016	2015
	\$	\$
CURRENT		
At net realisable value:		
Finished goods	12,979,301	8,113,877
Provision for slow moving/ obsolete stock	(270,834)	(256,284)
	<u>12,708,467</u>	<u>7,857,593</u>

Inventories recognised as expense during the year ended 31 July 2016 and included in cost of sales amounted to \$27,868,705 (2015: \$18,521,482).

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

12 Controlled Entities

(a) Controlled entities

	Country of Incorporation	Percentage Owned (%)* 2016	Percentage Owned (%)* 2015
Subsidiaries of Heritage Brands Limited:			
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

* Percentage of voting power is in proportion to ownership

(b) Acquisition of controlled entities

On 31 July 2015, the parent Company acquired a 100% of the issued capital of Oswin Laboratories Pty Limited ("Oswin Laboratories") and resulted in Heritage Brands Limited obtaining control. Oswin Laboratories owns the iconic suncare brand Le Tan. The acquisition of the Le Tan brand gave Heritage Brands a leadership position in the suncare skincare market and is in line with the company's stated strategy of continuous growth by supporting Australian iconic brands which are ethical and hold strong credentials of Australian provenance with the potential to expand into international markets in the core focus categories of Skin Care, Cosmetics and Aromatherapy.

The initial provisional accounting for the acquisition of Oswin Laboratories was as disclosed in the 2015 financial report. The Group recognised the fair values of the identifiable assets and liabilities acquired based on the information available at that date. The process of valuing separately identifiable intangible assets was completed as required under Australian Accounting Standards during the 2016 financial year and there were no changes to the assets and liabilities as previously recognised.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

13 Property, plant and equipment

	2016	2015
	\$	\$
Plant and equipment		
At cost	5,276,486	4,605,579
Accumulated depreciation	(4,303,395)	(3,990,632)
Total plant and equipment	<u>973,091</u>	614,947
Leasehold Improvements		
At cost	63,527	55,070
Accumulated depreciation	(53,941)	(49,700)
Total leasehold improvements	<u>9,586</u>	5,370
Total property, plant and equipment	<u><u>982,677</u></u>	<u>620,317</u>

(a) Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

Consolidated	Plant and Equipment	Leasehold Improvements	Total
	\$	\$	\$
Year ended 31 July 2016			
Balance at the beginning of year	614,947	5,370	620,317
Additions	672,360	8,458	680,818
Disposals	(1,454)	-	(1,454)
Depreciation expense	(312,762)	(4,242)	(317,004)
Balance at the end of the year	<u>973,091</u>	<u>9,586</u>	<u>982,677</u>

Consolidated	Plant and Equipment	Leasehold Improvements	Total
	\$	\$	\$
Year ended 31 July 2015			
Balance at the beginning of year	384,573	1,253	385,826
Additions	462,908	5,825	468,733
Disposals	(3,165)	-	(3,165)
Depreciation expense	(229,369)	(1,708)	(231,077)
Balance at the end of the year	<u>614,947</u>	<u>5,370</u>	<u>620,317</u>

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

14 Intangible Assets

	2016	2015
	\$	\$
Goodwill		
Cost	12,596,828	12,596,828
Trademarks		
Cost	4,656,308	4,656,308
Total Intangibles	17,253,136	17,253,136

(a) Movements in carrying amounts of intangible assets

Movement in the carrying amounts for each class of intangible assets between the beginning and the end of the current financial year:

	Goodwill	Trademarks	Total
	\$	\$	\$
Year ended 31 July 2016			
Balance at the beginning of year	12,596,828	4,656,308	17,253,136
Additions	-	-	-
Balance at the end of year	12,596,828	4,656,308	17,253,136
Year ended 31 July 2015			
Balance at the beginning of year	2,596,828	4,648,644	7,245,472
Additions	10,000,000	7,664	10,007,664
Balance at the end of year	12,596,828	4,656,308	17,253,136

Goodwill is not amortised. Trademarks of \$4,656,308 have indefinite useful lives and are not amortised while they continue to exploit new channels without significant cost.

(b) Impairment disclosures

For the purpose of impairment testing, goodwill and trademarks are allocated to cash-generating units which are based on the Group's reportable segments. The Group has determined that it has one CGU in consumer products. The aggregate carrying amount of goodwill and trademark tested for impairment in this CGU is:

	2016	2015
	\$	\$
Consumer Products	17,253,136	17,253,136
Total	17,253,136	17,253,136

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period, using an estimated growth rate (which does not exceed the long-term growth rate for the industry) on the next year's financial budget, and a terminal value multiple. The cash flows are discounted using the yield of a 5-year government bond at the beginning of the budget period adjusted for the specific risks relating to the asset.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

14 Intangible Assets continued

The following assumptions were used in the value-in-use calculations:

	Growth Rate		Discount Rate	
	2016	2015	2016	2015
Consumer Products	15%	3%	20%	20%

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate.

Sensitivity to change of assumptions

If the next year's financial budget used in the value-in-use calculation had been 10% lower than management's estimates at 31 July 2016, the Group would have a recoverable amount in excess of \$26,517,000 against the carrying amount of intangible assets and property, plant and equipment.

If the pre-tax discount rate applied to the cash flow projections of this CGU had been 1% higher than management's estimates (21% instead of 20%), the Group would have a recoverable amount in excess of \$28,723,000 against the carrying amount of intangible assets and property, plant and equipment. In 2016, there were no reasonably possible changes in any of the key assumptions that would have caused the carrying amount of the CGU to exceed its recoverable amount.

15 Trade and other payables

	2016	2015
	\$	\$
CURRENT		
Unsecured liabilities		
Trade payables	4,989,766	3,166,914
Deferred consideration	-	2,462,627
Employee benefits	626,660	169,296
Sundry payables and accrued expenses	2,432,320	1,601,561
	8,048,746	7,400,398

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

16 Borrowings

	2016	2015
	\$	\$
CURRENT		
Unsecured liabilities:		
Insurance refinancing	<u>123,407</u>	83,475
	<u>123,407</u>	<u>83,475</u>
Secured liabilities:		
Bank Facility - Bank of Melbourne	<u>7,047,611</u>	6,186,176
Total current borrowings	<u>7,171,018</u>	6,269,651
Total borrowings	<u>7,171,018</u>	6,269,651

(a) Bank Facility

Financial assets that have been pledged as part of the total collateral for the benefit of Bank of Melbourne are as follows:

	2016	2015
	\$	\$
Floating charge:		
- cash and cash equivalents	167,933	570,487
- trade receivables	6,211,565	5,036,064
- inventories	<u>12,708,467</u>	7,857,593
	<u>19,087,965</u>	<u>13,464,144</u>

The collateral over financial assets represents a first fixed and floating charge over financial assets of Heritage Brands (Australia) Pty Ltd and second fixed and floating charge over financial assets of Heritage Brands Limited and Incolabs Pty Ltd. The Bank of Melbourne loans carry a current variable rate of interest at 5.56% per annum (2015: 5.84%).

As at 31 July 2016, the Consolidated Group had a credit facility of \$10,000,000 of which \$2,952,389 is unused.

The Group has a long term bank facility which is subject to certain financial covenants. The facility agreement states that these covenants will be assessed at the end of each half, and reported to the bank within 45 days of the end of each half.

The Group has been advised by its bank that it is in breach of its capital ratio financial covenant as at 31 July 2016.

The Company has not been asked to take any action to remedy the breach by its bank at the date of this report.

Further, the Group's bank does not intend to withdraw any of the Company's loan facilities as a result of the breach and does not propose to charge any increased interest as a result of the breach.

The Groups financial covenants will be next reviewed by its bank as at 31 January 2017.

In the meantime, the Group is renegotiating its loan facility with the bank with the aim of avoiding further breaches of its financial covenants.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

17 Tax

Recognised deferred tax assets and liabilities

	2016	2015
	\$	\$
Deferred tax assets	227,955	359,006
	Opening Balance	Charged to Income
	\$	\$
Deferred tax assets		
Provisions	164,292	-
Deferred tax assets attributable to tax losses	194,714	-
Balance at 31 July 2015	359,006	-
Provisions	164,292	-
Deferred tax assets attributable to tax losses	194,714	(131,051)
Balance at 31 July 2016	359,006	(131,051)
	359,006	359,006
	164,292	164,292
	194,714	63,663
	359,006	227,955

(a) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following:

	2016	2015
	\$	\$
Tax losses	3,121,707	907,196

Deferred tax assets have not been recognised in respect of the tax losses because it has not been deemed probable that the group can utilise the benefits therein, due to the complexity and uncertainty attributed to the Groups carried forward tax losses and the conditions attached in bringing them to account.

18 Employee Benefits

	2016	2015
	\$	\$
CURRENT		
Long service leave	128,775	93,100
Annual leave	264,367	238,389
	393,142	331,489
	2016	2015
	\$	\$
NON-CURRENT		
Long service leave	259,819	231,536
	259,819	231,536

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

18 Employee Benefits continued

Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1.

19 Issued Capital

	2016 \$	2015 \$
1,801,111,087 (2015: 1,801,111,087) Ordinary shares	<u>25,915,489</u>	25,915,489
Total	<u>25,915,489</u>	<u>25,915,489</u>

(a) Movements in ordinary shares

	2016 No.	2015 No.
Opening balance at 1 August 2015	1,801,111,087	457,622,635
Rights issue - see note (ii) below	-	<u>1,343,499,467</u>
Closing balance at 31 July 2016	<u>1,801,111,087</u>	<u>1,801,111,087</u>

- (i) The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Group does not have authorised capital or par value in respect of its shares.

(ii) Rights Issue

On 16 June 2015, the company invited its shareholders to subscribe to a rights issue of 1,343,499,467 ordinary shares at an issue price of 0.75 cents (\$0.0075) per share on the basis of 2.9358 shares for every 1 fully paid ordinary share held, with such shares to be issued on, and rank for dividends after 30 June 2015. The issue was fully subscribed.

(b) Capital Management

Capital of the Group is managed in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

The Group monitors capital through the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is defined as equity per the statement of financial position plus net debt.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

19 Issued Capital continued

	2016	2015
	\$	\$
Total borrowings	7,171,018	6,269,651
Less cash and cash equivalents	(167,933)	(570,487)
Net debt	7,003,085	5,699,164
Total equity	22,934,992	17,993,765
Total capital	29,938,077	23,692,929
Gearing ratio	23%	24%

20 Capital and Leasing Commitments

(a) Operating Leases

	2016	2015
	\$	\$
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	488,942	495,103
- between one year and five years	1,345,144	1,766,432
	1,834,086	2,261,535

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall at the current rate for 5 years.

The operating leases for motor vehicles have lease terms of three-years. The Group does not have the option to purchase the leased asset at the end of the lease period.

21 Contingencies

The Group did not have any contingent liabilities or contingent assets at 31 July 2016 (31 July 2015: None).

22 Operating Segments

Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the Board of Directors which is at the consolidated entity level. Accordingly, the consolidated entity is treated as one operating segment.

Therefore, management identified the Group as having only one reportable segment. The financial results from this reportable segment are equivalent to the financial statements of the consolidated entity as a whole. There have been no changes in the operating segments during the year.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

22 Operating Segments continued

Basis of accounting for purposes of reporting by operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors which makes strategic decisions.

(a) Geographical information

Revenue attributable to external customers is disclosed below are mainly generated in Australia. All non-current assets are located in Australia.

(b) Major customers

Revenues of approximately \$47,621,539 (2015: \$ 26,487,511) are derived from 10 external customers. These revenues represent 75% of total external revenue (2015: 70%).

23 Cash Flow Information

(a) Reconciliation of result for the year to cash flows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	2016	2015
	\$	\$
Profit for the year	4,704,332	1,469,876
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation	317,004	231,077
- write-off of obsolete stock	36,341	10,043
- net loss on disposal of property, plant and equipment	7	3,001
- impairment of receivables	13,156	2,478
- other	(11,709)	(5,520)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	(1,175,503)	(386,290)
- (increase)/decrease in prepayments	(594,696)	(95,315)
- (increase)/decrease in inventories	(4,887,213)	(1,427,105)
- increase/(decrease) in trade and other payables	3,110,975	2,784,535
- increase/(decrease) in current tax liability	105,844	-
- increase/(decrease) in employee benefits	89,935	(43,749)
- decrease/(increase) in deferred tax assets	131,051	-
Cash flow from (used in) operations	<u>1,839,524</u>	<u>2,543,031</u>

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

24 Related Parties

(a) The Group's main related parties are as follows:

(i) Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

For details of remuneration disclosures relating to key management personnel, refer to Note 6: Interests of Key Management Personnel and the remuneration report in the Directors' Report.

Other transactions with KMP and their related entities are shown below.

(b) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	2016	2015
KMP related parties		
Fees received/receivable from Brands RMJ, a director/shareholder related entity for shared services	2,661	27,222
Fees received/receivable from Oswin, a director/shareholder related entity for shared services	-	55,596
	2,661	82,818
Major shareholders		
Interest paid/payable on cash loan provided by Maximize Equity Pty Ltd	-	82,224
Interest paid/payable on cash loan provided by Souls Private Equity Ltd	-	88,213
Interest paid/payable on cash loan provided by Rawlo International Pty Ltd	-	132,119
Interest paid/payable on cash loan provided by Stephen Mason	-	31,356
Interest paid/payable on cash loan provided by Steven O'Neill	-	9,239
Interest paid/payable on cash loan provided by Chris McGibbon	-	628
Interest paid/payable on cash loan provided by PJT Holdings Pty Ltd	-	9,003
Interest paid/payable on cash loan provided by S Goodey Pty Ltd	-	9,310
Interest paid/payable on cash loan provided by JKL Developments Pty Ltd	-	9,003
	-	371,095

Notes to the Consolidated Financial Statements

For the Year Ended 31 July 2016

(b) Transactions with related parties continued

All shareholder loans were repaid on 31st July 2015.

On the 31st July 2015, Heritage Brands acquired 100% of the shares in Oswin Laboratories Pty Ltd whose Directors and shareholders were all related parties. The related directors and shareholders are as follows:

- Peter Cox
- Stephen Mason
- Rawlo International Pty Ltd
- Steven O'Neill
- PJT Holdings Pty Ltd
- S Goodey Pty Ltd

The acquisition was approved by shareholders at an Extraordinary General Meeting held on 17th July 2015.

As part of the terms of the purchase consideration, the Vendors granted deferred consideration of \$2,462,627 payable over 5 months from 31 August 2015. (Refer to Notes 12(b) and 15.)

25 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments.

This note discloses the Group's objectives, policies and processes for managing and measuring these risks.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The Group does not speculate in financial assets.

The most significant financial risks to which the Group is exposed to are described below:

Specific risks

- Market risk - currency risk, cash flow interest rate risk and price risk
- Credit risk
- Liquidity risk

Financial instruments used

The principal categories of financial instrument used by the Group are:

- Trade receivables;
- Cash at bank;
- Trade and other payables; and
- Borrowings.

Notes to the Consolidated Financial Statements

For the Year Ended 31 July 2016

25 Financial Risk Management continued

Objectives, policies and processes

Risk management is carried out by the Group's risk management committee under the delegated power from the Board of Directors. The CFO and CEO have primary responsibility for the development of relevant policies and procedures to mitigate the risk exposure of the Group, these policies and procedures are then approved by the risk management committee and tabled at the board meeting following their approval.

Reports are presented at each Board meeting regarding the implementation of these policies and any risk exposure which the Risk Management Committee believes the Board should be aware of.

Specific information regarding the mitigation of each financial risk to which the Group is exposed is provided below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The utilisation of credit limits by customers is regularly monitored by line management. Customers who subsequently fail to meet their credit terms are required to make purchases on a prepayment basis until creditworthiness can be re-established.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Board receives monthly reports summarising the turnover, trade receivables balance and aging profile of each of the key customers individually and the Group's other customers analysed by industry sector as well as a list of customers currently transacting on a prepayment basis or who have balances in excess of their credit limits.

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The Group maintains cash and marketable securities to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

Notes to the Consolidated Financial Statements For the Year Ended 31 July 2016

25 Financial Risk Management continued

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day period are identified monthly.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

The Group's liabilities have contractual maturities which are summarised below:

	Within 1 year		1 to 5 years		Total	
	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$
Trade and other payables	8,048,746	7,400,398	-	-	8,048,746	7,400,398
Borrowings-principal	7,171,018	6,269,651	-	-	7,171,018	6,269,651
Total	15,219,674	13,670,049	-	-	15,219,674	13,670,049

Market risk

(i) Cash flow interest rate sensitivity

The Group is exposed to interest rate risk as funds are borrowed at floating and fixed rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings, mainly shareholder loans, are therefore usually at variable rates, which are re-priced annually. At the reporting date, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates.

At 31 July 2016, if interest rates had increased by 100 basis points or decreased by 100 basis points from the year end rates with all other variables held constant, post-tax profit for the period would have been \$74,520 higher/ \$74,520 lower (2015 changes of +100 bps/-100 bps: \$28,240 higher/\$28,240 lower), mainly as a result of higher/lower interest income from cash and cash equivalents. Other components of equity would have been \$74,520 lower/\$74,520 higher (2015 – \$28,240 lower/\$28,240 higher) mainly as a result of an increase/decrease in the fair value of borrowings.

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

Notes to the Consolidated Financial Statements
For the Year Ended 31 July 2016

25 Financial Risk Management continued

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables and payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

26 Events Occurring After the Reporting Date

The financial report was authorised for issue on 22nd September 2016 by the board of directors.

No matters or circumstances have arisen since the end of the financial 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.

27 Company Details

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

Heritage Brands Limited
30 Bando Road
Springvale VIC 3171

Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes for the year ended 31 July 2016 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position and performance of the consolidated group;
2. the Chief Executive Officer and Chief Financial Officer have given the declarations required by Section 295A that:
 - a. the financial records of the Group for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion, there are reasonable grounds to believe that the Group 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

Dated 22nd September 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Heritage Brands Limited

Report on the Financial Report

We have audited the accompanying financial report of Heritage Brands Limited, which comprises the consolidated statement of financial position as at 31 July 2016, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



Independence

In conducting our audit, 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 Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Heritage Brands Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 July 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1 (a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 31 July 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Heritage Brands Limited for the year ended 31 July 2016 complies with section 300A of the *Corporations Act 2001*.

Rothsay Chartered Accountants

Frank Vrachas
Partner

Sydney, 22 September 2016

Additional Information for Listed Public Companies

31 July 2016

NSX Additional Information

Additional information required by the NSX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 31st July 2016.

Substantial shareholders

The number of substantial shareholders and their associates are set out below:

Voting rights

Ordinary Shares

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

Distribution of equity security holders

Holding	Ordinary shares	
	Number of shareholders	Number of shares
1-1,000	0	0
1,001-5,000	4	12,614
5,001-10,000	68	606,986
10,001-100,000	118	5,223,198
100,001-99,999,999,999	82	1,795,268,289
	272	1,801,111,087

There were 78 holders of less than a marketable parcel of ordinary shares.

Additional Information for Listed Public Companies

31 July 2016

Twenty largest shareholders

	Ordinary shares	
	Number held	% of issued shares
SOULS PRIVATE EQUITY LIMITED	452,470,639	25.12%
RAWLO INTERNATIONAL PTY LIMITED <MCCARTNEY FAMILY A/C>	341,797,912	18.98%
MAXIM KROK	160,174,133	8.89%
CVC LIMITED	135,163,381	7.50%
AKOCA PTY LTD <AKOCA A/C>	120,174,134	6.67%
RAWLO INTERNATIONAL PTY LTD <MCCARTNEY FAMILY S/F A/C>	110,672,727	6.15%
MR STEPHEN MASON	94,046,177	5.22%
MAXIMIZE EQUITY PTY LTD <MAXIMIZE EQUITY TRUST>	91,431,644	5.08%
MR STEPHEN LESLIE MASON <STEPHEN LESLIE MASON S/F A/C>	69,848,883	3.88%
S GOODEY PTY LTD	39,487,967	2.19%
PTJ HOLDINGS PTY LIMITED <PJT A/C>	31,698,634	1.76%
JKL DEVELOPMENTS PTY LIMITED <PHT COX FAMILY A/C>	31,698,634	1.76%
MR STEVEN ANDREW O'NEILL <O'NEILL FAMILY A/C>	18,299,034	1.02%
MR CONSTANTINOS GENDIS	13,333,333	0.74%
KISTANI HOLDINGS PTY LIMITED	11,369,060	0.63%
EGP FUND NO 1 PTY LTD	11,117,417	0.62%
MR CHRISTOPHER MC GIBBON & MRS ELIZABETH MC GIBBON <BRAZEN SUPER FUND A/C>	8,003,333	0.44%
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,060,246	0.39%
MR ALEXANDER DAMIEN BEARD & MRS MARIE PASCALE BEARD <AD & MP BEARD SUPER FUND A/C>	7,000,000	0.39%
MR ELLIOTT KAPLAN & MRS BRENDA KAPLAN <KAPLAN FAMILY SUPER FUND A/C>	7,000,000	0.39%
TOTAL OF TOP 20 SHAREHOLDINGS	1,761,847,288	97.82%
OTHER SHAREHOLDERS	39,263,799	2.18%
TOTAL ORDINARY SHARES ON ISSUE	<u>1,801,111,087</u>	100.00%

Additional Information for Listed Public Companies

31 July 2016

* Signifies a Director controlled entity

Company secretary

The name of the company secretary is Christopher William McGibbon.

Principal address

The address of the principal registered office in Australia is 30 Bando Road, Springvale, VIC 3171. Telephone 03 9574 2100.

Registers of securities

Registers of securities are held at the following addresses:

NSW Boardroom Pty Ltd, Level 7, 207 Kent Street, Sydney, NSW 2000

Victoria 30 Bando Road, Springvale, VIC 3171.

Securities exchange

The Company is listed on the NSX. Quotation has been granted for all the ordinary shares of the Company on all member exchanges of NSX.

Unquoted securities

There are no unquoted securities.