

Heritage Brands Ltd and Controlled Entities

ACN 081 149 635

Financial Statements

For the Year Ended 31 July 2018

Heritage Brands Ltd and Controlled Entities
ACN 081 149 635

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For the Year Ended 31 July 2018

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Chairman's Report

31 July 2018

Dear Shareholder,

The 2017/18 financial year has seen a reasonable result for Heritage Brands given the current retail environment with gross sales up 7% to \$74.5m and EBITDA up 7% to \$6.0m.

The results reflect an improved second half against the landscape of continued significant slowdown in retail sales across major retailers plus the following:

- Increased competitor price discounting and frequency of activity;
- An increase in the cost of doing business across the sector with \$1.47m in interest charges and depreciation costs against year 2 of a 3 year roll out of updating our instore presence for our major flagship brands in all major retailers.

Net Profit after taxation was significantly down largely due to the fact that income tax expense is being recognised at the full rate of 30% of taxable profit for the first time.

Despite the challenging retail environment, the Heritage Brands Group made a number of significant achievements and investments during 2017/18 year as follows:

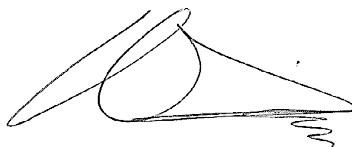
- Continued growth in our online and overseas markets especially South-East Asia and Europe, with both these channels exhibiting 100% growth year on year;
- Launch of Australis into the UK, Philippines and Malaysian markets;
- Launch of the Uber by le tan artificial brand Australia wide;
- Strategic acquisition of the Cedel brand (an Australian iconic brand) in February 2018, which expands our distribution foot print in China and surrounding markets;
- Launch of 2XP next generation sun protection brand into the Australian market in Partnership with Surfing Australia and the AFL Players Association;
- Significant investment to revitalise our instore presence across all our flagship brands which strengthen and secure our distribution foot print against a back drop of significant brand and space rationalisation by major retailers; and
- Ongoing growth in the Social media space

All of the foregoing initiatives should lead to a significant increase in sales and EBITDA in the 2018/19 financial year. In this regard Heritage Brands is currently tracking significantly ahead of budget for the first two months of 2018/19 year. Subject to no unforeseen circumstance the management team are forecasting a significant improvement in financial performance for the coming year.

A fully franked maiden dividend totalling \$900k was declared on the 18th September 2018. The closing date for the Share Register is 21st November 2018 and the dividend will be payable on the 14th December 2018.



DAVID FAIRFULL
CHAIRMAN



CON GENDIS
MANAGING DIRECTOR/CEO

Directors' Report

31 July 2018

The directors present their report, together with the financial statements of the Group, being Heritage Brands Ltd (the "Company") and its controlled entities, for the financial year ended 31 July 2018.

1. General information

Information on directors

The names, qualifications, experience and special responsibilities 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
Qualifications	B.Com, A.C.I.S, C.P.A., F.Fin, M.A.I.C.D.
Experience	Merchant banker with over 40 years' experience in mergers and acquisitions and underwriting projects. Chairman of Hall Chadwick Chartered Accountants.
Special responsibilities	Member of the Audit, Risk and Corporate Governance Committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	Washington H. Soul Pattinson and Company Limited New Hope Corporation Limited
KROK, Maxim	Non-Executive Director
Qualifications	BProc LLB
Experience	Entrepreneur and Investor with over 35 years' experience across a wide range of business sectors, including pharmaceuticals, cosmetics, FMCG and medical devices, both as an Executive and Non-Executive Director.
Special responsibilities	Chairman of remuneration committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None
MASON, Stephen Leslie	Non-Executive Director
Qualifications	LLB, BComm, DipCM, FCPA, FGIA, FCSA, JP
Experience	Former CEO of Creative Brands Pty Ltd and Finance Director of ASX-listed Lemarne Corporation Limited for over 10 years and Company Secretary for 20 years. Currently CEO of the Australian Patients Association.
Special responsibilities	Chairman of the Audit, Risk and Corporate Governance Committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None

Directors' Report

31 July 2018

1. General information (continued)

Information on directors (continued)

MCCARTNEY, William Thomson	Non-Executive Director
Qualifications	Former MD CEO Bronson and Jacobs Group, Sunspirit Aromatherapy, Australian Plantations, Essential Oils of Tasmania, Bridestowe Estate, KenKay Pharmaceuticals for over 35 years, former Non-Executive Director Leap Legal Software. Currently Group Director Business Development Bontoux SA.
Experience	Over 40 years' experience in the cosmetic fragrance, toiletry, food and flavour industries in Australia, South East Asia and China.
Special responsibilities	Member of remuneration committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None
GENDIS, Constantinos	Managing Director
Qualifications	B.App. Sc ,Grad Dip Marketing
Experience	Over 25 years' experience in the FMCG Industry both local and abroad
Special responsibilities	Managing Director
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None

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 2018

2. Operating results and review of operations for the year

Operating results

Heritage Brands has delivered a profit for the year ended 31 July 2018. Gross Sales are 7% or \$4.9m up on last year despite a continuing slowdown in local retail sales. Our investment into On-Line and Export Sales together with a pharmacy drive has yielded positive results and Sales into these channels increased by \$6.7m or 30% up on last year. The Employment cost of acquiring these sales was \$741k while the indirect costs amounted to \$1.0m.

EBITDA before abnormal items and stand rentals increased by \$400k to \$6.0m. EBT before abnormal items was marginally down on last year. As tax losses were recognised last year, tax expense is being recognised at 30% of taxable profits and our tax expense for the year increased by \$863k which resulted in an Earnings after Taxation of \$2.6m (2017 - \$3.8m).

The outlook for the Group remains positive and the key focus of management for 2019 will be to capitalise on the investment into Ecommerce and Export while maintaining our local business.

Review of operations

Net Revenue for the year was \$59.0m (2017 - \$54.3m). Profit after Tax was \$2.6m (2017 - \$3.8m).

The increase in Sales as mentioned above is largely attributable to the success of Online and Ecommerce initiatives. The acquisition of the Cedel brand in February 2018 added \$2.2m to the top line. Other successes included our Skin Republic Brand, Essential Oil brands and a successful launch into Superdrug in the UK with Australis Tanning.

3. Financial review

Financial position

The net assets of the Group have increased by \$2,607,747 from \$26,544,576 at 31 July 2017 to \$29,152,323 at 31 July 2018. This increase is due to the Profit earned and retained by the Group

Summary of Performance

A summary of the previous five year's performance is shown below:

		2014	2015	2016	2017	2018
Gross revenue	\$'000	35,606	37,617	63,091	69,552	74,473
Trading terms	\$'000	5,572	5,878	13,430	15,247	15,436
Net revenue	\$'000	30,034	31,739	49,661	54,305	59,037
EBITDA - before abnormal item and stand rentals	\$'000	1,124	2,623	5,988	5,631	6,031
Abnormal item	\$'000	-	-	83	134	295
EBITDA – before stand rentals and after abnormal item	\$'000	1,124	2,623	5,905	5,497	5,736
Profit before income tax	\$'000	28	1,470	4,941	4,094	3,719
Total assets	\$'000	19,703	32,227	38,677	42,346	48,642
Total liabilities	\$'000	12,992	14,233	15,979	15,801	19,490
Shareholders' funds	\$'000	6,711	17,993	22,698	26,545	29,152
Earnings per share	Cents	0.01	0.32	0.26	0.21	0.14
Dividend per share	Cents	-	-	-	-	-
Net tangible assets per share	Cents	(0.19)	0.08	0.29	0.46	0.52
Price/earnings ratio	x	246.17	6.20	12.63	14.05	24.2

* The Shares of the Group of the Group were last traded at 3.5c for the year ended 31 July 2018.

Directors' Report

31 July 2018

4. 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

No dividends have been declared or paid during the year.

A fully franked dividend of 0.05 cents per share, totalling \$900,556, was declared on 18 September 2018.

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, Thank You, Skin Republic and Cedel.

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.

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.

Meetings of directors

During the financial year, 14 meetings of directors were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Risk and Corporate Governance Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
FAIRFULL, David John	14	14	2	2	-	-
KROK, Maxim	14	14	-	-	2	2
MASON, Stephen Leslie	14	14	2	2	-	-
MCCARTNEY, William Thomson	14	11	-	-	2	2
GENDIS Constantinos	14	14	-	-	2	2

Directors' Report

31 July 2018

4. Other items (continued)

Indemnification and insurance of officers and auditors

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

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

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

Options

The Managing Director has been granted 10,000,000 options with an exercise price of \$0.02 per option. The options will vest if the Managing Director continues in his role in the Group and on satisfaction of the following:

1. On achievement of a share price equal to or greater than \$0.025 after 3 years of grant date 2,500,000 options will be exercisable;
2. On achievement of a share price equal to or greater than \$0.0325 after 4 years of grant date 2,500,000 options will be exercisable; and
3. On achievement of a share price equal to or greater than \$0.045 after 5 years of grant date 5,000,000 options will be exercisable.

The final exercise date is 30 days after the fifth anniversary on the date of the issue of the options.

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

Grant Date	Vesting and Exercise Date	Expiry Date	Exercise Price	Number under Option
26 November 2015	26 November 2018	26 December 2020	\$0.02	2,500,000
26 November 2015	26 November 2019	26 December 2020	\$0.02	2,500,000
26 November 2015	26 November 2020	26 December 2020	\$0.02	5,000,000
				<u>10,000,000</u>

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

During the year ended 31 July 2018, no ordinary shares of Heritage Brands Ltd were issued on the exercise of options granted.

No further shares have been issued since year end on the exercise of options granted.

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

Directors' Report

31 July 2018

4. Other items (continued)

Proceedings on behalf of company

Non-audit services

The Board of Directors, in accordance with advice from the Audit, Risk and Corporate Governance 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, Risk and Corporate Governance 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 2018:

	2018	2017
	\$	\$
Taxation compliance services to Rothsay Chartered Accountants	<u>13,740</u>	<u>5,350</u>

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 2018 has been received and can be found on page 16 of the financial report.

Directors' Report

31 July 2018

5. Remuneration report (audited)

Remuneration policy

The remuneration policy of Heritage Brands Ltd and Controlled Entities 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 Ltd and Controlled Entities 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.
- Incentives paid in the form of options or rights are intended to align the interests of the KMP and the Group with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The Remuneration Committee reviews key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

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 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised before or on the date of termination will lapse.

All remuneration paid to key management personnel is valued at the cost to the Group 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 \$250,000 which was approved at the 2016 AGM.

Directors' Report

31 July 2018

5. Remuneration report (audited) (continued)

Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Performance-based bonus based on key performance indicators aim to encourage the alignment of personal and shareholder interests. The Company believes this policy has been effective in increasing shareholder wealth.

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 support. 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 greatest potential for the 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.

The satisfaction of the financial 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 to 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 which require three months' notice) may be terminated by giving four 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.

Directors' Report

31 July 2018

5. Remuneration report (audited) (continued)

Remuneration details for the year ended 31 July 2018

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		Bonus	Post-	Long term	Total
	Cash salary fees	Annual leave accrued		employment	Long service leave accrued	
2018	\$	\$	\$	\$	\$	\$
Directors						
FAIRFULL, David John	50,150	-	-	-	-	50,150
KROK, Maxim	42,375	-	-	-	-	42,375
MASON, Stephen Leslie	45,000	-	-	-	-	45,000
MCCARTNEY, William Thomson	37,650	-	-	-	-	37,650
GENDIS Constantinos	410,967	21,630	-	39,042	18,227	489,866
Key Management Personnel						
MCGIBON, Christopher William	296,809	17,488	-	28,197	(7,561)	334,933
	882,951	39,118	-	67,239	10,666	999,974

	Short term		Bonus	Post-	Long term	Total
	Cash salary fees	Annual leave accrued		employment	Long service leave accrued	
2017	\$	\$	\$	\$	\$	\$
Directors						
FAIRFULL, David John	39,900	-	-	-	-	39,900
KROK, Maxim	34,125	-	-	-	-	34,125
MASON, Stephen Leslie	36,750	-	-	-	-	36,750
MCCARTNEY, William Thomson	29,400	-	-	-	-	29,400
GENDIS Constantinos	410,967	9,923	-	39,042	3,925	463,857
Key Management Personnel						
MCGIBON, Christopher William	296,809	(15,287)	-	28,197	11,579	321,298
	847,951	(5,364)	-	67,239	15,504	925,330

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.

Directors' Report

31 July 2018

5. Remuneration report (audited) (continued)

Cash performance-related bonuses

No director or key management personnel received cash bonuses during the year due to the performance or service criteria not being met.

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

Key management personnel shareholdings

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

31 July 2018	Balance at beginning of year	Changes during the year	Balance at end of year
Directors			
FAIRFULL, David John	3,172,254	-	3,172,254
KROK, Maxim	383,148,971	-	383,148,971
MASON, Stephen Leslie	163,895,060	-	163,895,060
MCCARTNEY, William Thomson	452,470,639	-	452,470,639
GENDIS Constantinos	13,333,333	-	13,333,333
Key Management Personnel			
MCGIBBON, Christopher William	8,003,333	-	8,003,333
	1,024,023,590	-	1,024,023,590

31 July 2017	Balance at beginning of year	Changes during the year	Balance at end of year
Directors			
FAIRFULL, David John	3,172,254	-	3,172,254
KROK, Maxim	383,148,971	-	383,148,971
MASON, Stephen Leslie	163,895,060	-	163,895,060
MCCARTNEY, William Thomson	452,470,639	-	452,470,639
GENDIS Constantinos	13,333,333	-	13,333,333
Key Management Personnel			
MCGIBBON, Christopher William	8,003,333	-	8,003,333
	1,024,023,590	-	1,024,023,590

Directors' Report

31 July 2018

5. Remuneration report (audited) (continued)

Key Management Personnel related party transactions

For details of other transactions with key management personnel, refer to Note 26 Related Party Transactions.

End of Audited Remuneration Report

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 18th September 2018

Corporate Governance Statement

31 July 2018

The Board of Heritage Brands Ltd ("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 to protect 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 the 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 2018

Access to information and advice

Functions that are commonly delegated to committees are performed by specific members of the Board and the CEO. 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 Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for implementing the Board's 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 regular reports about the financial condition and operational results of the Company. The Chief Financial Officer 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 condition 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 Audit, Risk and Corporate Governance Committee. The Board also assists where required 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 2018

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.

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

As lead auditor of Heritage Brands Ltd for the year ended 31 July 2018, 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 relation to Heritage Brands Ltd and the entities it controlled during the year.

Rothsay Chartered Accountants



Frank Vrachas

Partner

Sydney, 18 September 2018

Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 July 2018

	2018	2017
Note	\$	\$
Revenue	4 59,449,807	54,754,664
Other income	4 17,673	4,397
Changes in inventories of finished goods	(33,121,514)	(30,945,174)
Advertising and promotion	(5,566,496)	(5,019,914)
Depreciation and amortisation expense	(456,612)	(386,309)
Employee benefits expense	(10,583,076)	(9,420,135)
Finance costs	(556,280)	(561,538)
Occupancy expenses	(443,129)	(443,129)
Other expenses	5 (5,021,245)	(3,888,890)
Profit before income tax	3,719,128	4,093,972
Income tax expense	6 (1,111,381)	(247,493)
Profit for the year	2,607,747	3,846,479
Other comprehensive income for the year	-	-
Total comprehensive income for the year	2,607,747	3,846,479
 Earnings per share		
Basic and diluted earnings per share (cents)	0.14	0.21

Statement of Financial Position

As At 31 July 2018

	Note	2018 \$	2017 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	287,557	442,988
Trade and other receivables	9	14,129,857	10,606,332
Inventories	10	13,455,970	12,146,917
Current tax receivable	16	17,447	-
TOTAL CURRENT ASSETS		<u>27,890,831</u>	23,196,237
NON-CURRENT ASSETS			
Property, plant and equipment	11	841,919	902,424
Deferred tax assets	16	516,006	854,001
Intangible assets	12	19,253,136	17,253,136
Investments in associates	14	140,000	140,000
TOTAL NON-CURRENT ASSETS		<u>20,751,061</u>	19,149,561
TOTAL ASSETS		<u>48,641,892</u>	42,345,798
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	7,514,178	4,774,386
Current tax liabilities	16	-	696,082
Borrowings	17	11,025,556	9,553,428
Employee benefits	18	688,889	527,143
TOTAL CURRENT LIABILITIES		<u>19,228,623</u>	15,551,039
NON-CURRENT LIABILITIES			
Employee benefits	18	260,946	250,183
TOTAL NON-CURRENT LIABILITIES		<u>260,946</u>	250,183
TOTAL LIABILITIES		<u>19,489,569</u>	15,801,222
NET ASSETS		<u>29,152,323</u>	26,544,576
EQUITY			
Issued capital	19	25,915,489	25,915,489
Retained earnings		<u>3,236,834</u>	629,087
TOTAL EQUITY		<u>29,152,323</u>	26,544,576

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 July 2018

2018

	Ordinary Shares	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2017	25,915,489	629,087	26,544,576
Profit for the year	-	2,607,747	2,607,747
Transactions with owners in their capacity as owners	-	-	-
Balance at 31 July 2018	25,915,489	3,236,834	29,152,323

2017

	Ordinary Shares	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2016	25,915,489	(3,217,392)	22,698,097
Profit for the year	-	3,846,479	3,846,479
Transaction with owners in their capacity as owners	-	-	-
Balance at 31 July 2017	25,915,489	629,087	26,544,576

Statement of Cash Flows
For the Year Ended 31 July 2018

	2018	2017
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	61,155,658	57,644,536
Payments to suppliers and employees	(58,347,326)	(58,437,036)
Interest received	3,154	3,012
Interest paid	(556,280)	(561,538)
Income taxes paid	(1,486,915)	(283,301)
Net cash provided by/(used in) operating activities	21 <u>768,291</u>	<u>(1,634,327)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of plant and equipment	1,200	1,494,054
Purchase of property, plant and equipment	(397,050)	(1,827,082)
Purchase of investments	(2,000,000)	(140,000)
Net cash provided by/(used in) investing activities	<u>(2,395,850)</u>	<u>(473,028)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	<u>1,472,128</u>	2,382,410
Net cash provided by/(used in) financing activities	<u>1,472,128</u>	<u>2,382,410</u>
Net increase/(decrease) in cash and cash equivalents held	(155,431)	275,055
Cash and cash equivalents at beginning of year	<u>442,988</u>	167,933
Cash and cash equivalents at end of financial year	8 <u><u>287,557</u></u>	<u><u>442,988</u></u>

Notes to the Financial Statements

For the Year Ended 31 July 2018

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

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

The separate financial statements and notes of the parent entity, Heritage Brands Ltd, 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 28.

The financial report was authorised for issue by the Directors on 18 September 2018.

Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the *Corporations Act 2001*.

These financial statements 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 based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

2 Summary of Significant Accounting Policies

(a) Basis for 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 cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a July financial year end.

A list of controlled entities is contained in Note 13 to the financial statements.

Subsidiaries

Subsidiaries are all entities over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(a) Basis for consolidation (continued)

Associates

Interests in associates, where the investor has significant influence over the investee, are accounted for using the equity method in accordance with AASB 128 *Investments in Associates and Joint Ventures*. Under this method, the investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

(b) 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 net assets acquired, 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.

(c) Foreign currency transactions and balances

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.

Notes to the Financial Statements
For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(c) Foreign currency transactions and balances (continued)

Transaction and balances (continued)

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.

(d) 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 Group 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.

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.

Other income

Other income is recognised on an accruals basis when the Group is entitled to it.

(e) 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.

(f) Deferral of expenditure

Where goods or services have been paid for but not yet delivered the Group recognises this expenditure as a prepayment until such time as the service has been delivered in full.

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(g) Income Tax

The tax expense recognised in profit or loss comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (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 laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

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.
- Temporary differences related to investments 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 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 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 tax consolidation 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.

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(g) Income Tax (continued)

Tax consolidated group (continued)

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.

(h) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (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.

Cash flows 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.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(j) Financial instruments

Financial instruments are recognised initially 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 incurred).

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.

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(j) Financial instruments (continued)

The Group's financial assets comprise loans and receivables.

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 allowance for impairment. Any change in their value is recognised in profit or loss.

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

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.

Financial liabilities

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. Although the Group uses derivative financial instruments in economic hedges of currency and interest rate risk, it does not hedge account for these transactions.

The Group's financial liabilities include borrowings and trade and other payables 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 assets 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 account, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

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

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(k) 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 is net of any rebates and discounts received.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimate 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 allowance if necessary.

(l) Plant and equipment

Plant and equipment are measured using the cost model.

Depreciation

Plant and equipment is depreciated on a straight-line basis over the assets useful life to the Group, commencing when the asset is ready for use.

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

(m) Intangibles

Goodwill

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

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

over the acquisition date fair value of net identifiable assets acquired in a business combination.

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

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(m) Intangibles (continued)

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 accumulated amortisation and any impairment losses.

(n) 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 non-financial assets.

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

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

(o) Borrowings

Borrowings are recorded at fair value. Borrowings are classified as current liabilities unless the Group has the unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date. Finance costs are expensed when incurred.

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(p) Employee entitlements

A liability is recognised for the Group's employee entitlements arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly 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.

(q) 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.

(r) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company 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.

(s) Adoption of new and revised accounting standards

The Group has adopted all standards which became effective for the first time at 31 July 2018, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Group.

Notes to the Financial Statements

For the Year Ended 31 July 2018

2 Summary of Significant Accounting Policies (continued)

(t) New Accounting Standards and Interpretations

The AASB has issued new and amended Accounting Standards that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Group where the standard is relevant:

Standard Name	AASB 15 Revenue from contracts with customers
Effective date	1 August 2018
Requirements and Impact	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. Accounting policy changes will arise in timing of revenue recognition, treatment of contracts costs and contracts which contain a financing element. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The introduction of AASB 15 is not expected to materially impact the recorded revenue for the Group, however, may impact on the revenue related disclosures in the financial report.

Standard Name	AASB 16 Leases
Effective date	1 August 2019
Requirements and Impact	AASB 16 requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the present value of its obligation to make lease payments. Rental expense will be replaced by depreciation on the right-of-use asset and interest expense on the lease liability.

The current leases of the Group expire prior to, or within 12 months, of the application of this standard. As such it is not practical to perform an assessment of the impact of AASB 16 on the leases currently in place.

The Group has made an assessment of the increase (decrease) on the reported amounts assuming the Group renegotiates all of its leases on 1 August 2019 with substantially similar terms to those currently in place.

This assessment is summarised below:

	Year 1	Year 2	Year 3	Year 4	Year 5
Profit before income tax	(92,527)	(32,051)	60,279	19,900	44,399
Right of use asset	3,885,329	2,327,571	769,813	384,907	-
Lease liability	3,977,856	2,452,149	834,112	429,306	-

Notes to the Financial Statements

For the Year Ended 31 July 2018

3 Critical Accounting Estimates and Judgments

The directors make estimates and judgements during the preparation of these financial statements regarding assumptions about current and future events affecting transactions and balances.

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.

The significant estimates and judgements made have been described below.

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 income tax, 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 12 to the consolidated financial statements.

Key estimates - receivables

The receivables at reporting date have been reviewed to determine whether there is any objective evidence that any of the receivables are impaired. An impairment allowance is included for any receivable where the entire balance is not considered collectible. The impairment allowance is based on the best information at the reporting date.

Notes to the Financial Statements

For the Year Ended 31 July 2018

3 Critical Accounting Estimates and Judgments (continued)

Key estimates - inventory

The allowance for obsolete stock assessment requires a degree of estimation and judgement. The level of the allowance 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 an allowance for obsolete stock of \$450,000 (2017: \$475,380) is reasonable and that all other inventories are carried at their realisable values as at the end of the financial year.

4 Revenue and Other Income

	2018	2017
	\$	\$
Sales revenue		
- Gross sales	74,473,389	69,551,676
- Trading terms	(15,436,314)	(15,246,313)
Net Sales	<u>59,037,075</u>	54,305,363
Finance income		
- Bank deposits	3,154	3,012
Other revenue		
- Royalties	26,882	27,051
- Foreign exchange gains	382,696	419,238
Total Revenue	<u><u>59,449,807</u></u>	<u>54,754,664</u>
Other Income		
- Sundry income	<u>17,673</u>	4,397

5 Result for the Year

Significant increases in other expenses from 2017 to 2018 are summarised below:

Social media investment	777,817	443,834
Sales broker commissions	2,103,901	1,456,065
Business development in overseas markets	72,215	25,253
Restructuring costs	202,450	106,660
Other expenses	1,864,862	1,857,078
	<u><u>5,021,245</u></u>	<u>3,888,890</u>

Notes to the Financial Statements

For the Year Ended 31 July 2018

6 Income Tax Expense

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

	2018	2017
	\$	\$
Current tax	773,386	873,539
Deferred tax	337,995	(96,844)
Recoupment of prior year tax losses	-	(529,202)
	<u>1,111,381</u>	<u>247,493</u>

(b) Reconciliation of income tax to accounting profit:

Profit	3,719,128	4,093,972
Tax	30.00%	30.00%
	<u>1,115,738</u>	<u>1,228,192</u>

Add:

Tax effect of:

- non-deductible depreciation and amortisation	287	1,887
- other non-allowable items	2,725	1,377
- adjustment for current tax of prior periods	(7,369)	-
	<u>1,111,381</u>	<u>1,231,456</u>

Less:

Tax effect of:

Recoupment of prior year tax losses not previously brought to account	-	(983,963)
Income tax expense	<u>1,111,381</u>	<u>247,493</u>

7 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 Group 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 Group as a whole. There have been no changes in the operating segments during the year.

Notes to the Financial Statements

For the Year Ended 31 July 2018

7 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 makers. 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 are mainly generated in Australia. All non-current assets are located in Australia.

(b) Major customers

Gross revenues of approximately \$50.069 million (2017: \$50.936 million) are derived from 10 customers. This represents 67% (2017: 73%) of total external gross revenue.

8 Cash and Cash Equivalents

	2018	2017
	\$	\$
Cash at bank and in hand	287,557	442,988
	<u>287,557</u>	<u>442,988</u>

9 Trade and Other Receivables

Current		
Trade receivables	12,326,575	9,632,723
Allowance for impairment	(23,643)	(2,617)
Allowance for rebates, incentives and discounts	(972,054)	(1,341,613)
	<u>11,330,878</u>	<u>8,288,493</u>
Loan to Heritage Luma Pty Limited	140,000	140,000
Deposits	-	5,601
Prepayments	2,658,979	2,172,238
	<u>14,129,857</u>	<u>10,606,332</u>

Notes to the Financial Statements
For the Year Ended 31 July 2018

9 Trade and Other Receivables (continued)

(a) Credit risk

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.

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 and outstanding receivables.

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.

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.

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 following table details the Group's trade and other receivables exposure to credit risk with ageing analysis and 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.

	Gross amount	Past due and impaired	Past due but not impaired (days overdue)				Within initial trade terms
			< 30	31-60	61-90	> 90	
			\$	\$	\$	\$	
2018							
Trade receivables	12,326,575	23,643	2,261,978	647,281	1,278,918	-	8,114,755
Other receivables	-	-	-	-	-	-	-
Total	<u>12,326,575</u>	<u>23,643</u>	<u>2,261,978</u>	<u>647,281</u>	<u>1,278,918</u>	<u>-</u>	<u>8,114,755</u>
2017							
Trade receivables	9,632,723	2,617	1,748,439	282,491	511,051	-	7,088,125
Other receivables	5,601	-	-	-	-	-	5,601
Total	<u>9,638,324</u>	<u>2,617</u>	<u>1,748,439</u>	<u>282,491</u>	<u>511,051</u>	<u>-</u>	<u>7,093,726</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.

Notes to the Financial Statements
For the Year Ended 31 July 2018

9 Trade and Other Receivables (continued)

(b) Collateral held as security

A registered general security agreement over trade receivables has been provided for certain debt. Refer to Note 17 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.

10 Inventories

	2018	2017
	\$	\$
Current		
At net realisable value:		
Finished goods	13,486,648	11,807,076
Allowance for slow moving and obsolete stock	(450,000)	(475,380)
Inventory in transit	419,322	815,221
	13,455,970	12,146,917

11 Property, plant and equipment

Plant and equipment		
At cost	4,578,918	4,189,732
Accumulated depreciation	(3,741,633)	(3,295,190)
Total plant and equipment	837,285	894,542
Leasehold Improvements		
At cost	76,248	70,103
Accumulated amortisation	(71,614)	(62,221)
Total leasehold improvements	4,634	7,882
	841,919	902,424

Notes to the Financial Statements
For the Year Ended 31 July 2018

11 Property, plant and equipment (continued)

(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:

	Plant and Equipment	Leasehold Improvements	Total
	\$	\$	\$
Year ended 31 July 2018			
Balance at the beginning of year	894,542	7,882	902,424
Additions	390,906	6,144	397,050
Disposals	(943)	-	(943)
Depreciation	(447,220)	(9,392)	(456,612)
Balance at the end of the year	837,285	4,634	841,919

	Plant and Equipment	Leasehold Improvements	Total
	\$	\$	\$
Year ended 31 July 2017			
Balance at the beginning of year	973,091	9,586	982,677
Additions	1,820,506	6,576	1,827,082
Disposals	(1,521,026)	-	(1,521,026)
Depreciation	(378,029)	(8,280)	(386,309)
Balance at the end of the year	894,542	7,882	902,424

12 Intangible Assets

	2018	2017
	\$	\$
Goodwill		
Cost	12,596,828	12,596,828
Trademarks		
Cost	6,656,308	4,656,308
	19,253,136	17,253,136

Notes to the Financial Statements
For the Year Ended 31 July 2018

12 Intangible Assets (continued)

(a) Movements in carrying amounts of intangible assets

	Trademarks \$	Goodwill \$	Total \$
Year ended 31 July 2018			
Balance at the beginning of the year	4,656,308	12,596,828	17,253,136
Other changes, movements	2,000,000	-	2,000,000
Closing value at 31 July 2018	6,656,308	12,596,828	19,253,136

	Trademarks \$	Goodwill \$	Total \$
Year ended 31 July 2017			
Balance at the beginning of the year	4,656,308	12,596,828	17,253,136
Other changes, movements	-	-	-
Closing value at 31 July 2017	4,656,308	12,596,828	17,253,136

Goodwill is not amortised. Trademarks have indefinite useful lives and are not amortised while they continue to exploit new channels without significant cost.

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 being consumer products.

The recoverable amount of the cash-generating unit 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 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.

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

	Growth Rate		Discount Rate	
	2018	2017	2018	2017
	%	%	%	%
Consumer Products	15.00	15.00	20.00	20.00

Notes to the Financial Statements

For the Year Ended 31 July 2018

12 Intangible Assets (continued)

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 2018, the Group would have a recoverable amount in excess of approximately \$6.0m against the carrying amount of intangible assets and 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 approximately \$8.0m against the carrying amount of intangible assets and plant and equipment. In the financial year 31 July 2018, 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.

If the growth rate were to be reduced to 0% and the discount rate increased to 29%, the calculated amount would approximate the carrying amount of intangible assets and plant and equipment.

13 Interests in Subsidiaries

	Country of Incorporation	Percentage Owned (%)* 2018	Percentage Owned (%)* 2017
Subsidiaries:			
Heritage Brands (Australia) Pty Ltd	Australia	100	100
Innoxia Group Pty Ltd	Australia	100	100
Innoxia Holdings Pty Ltd	Australia	100	100
Innoxia Marks Pty Ltd	Australia	100	100
Incolabs Pty Ltd	Australia	100	100
Heritage Le Tan Pty Ltd	Australia	100	100

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

14 Interests in Associates

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2018	Percentage Owned (%)* 2017
Associates:			
Heritage Luma Pty Limited	Australia	35	35

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

	2018	2017
	\$	\$
Investment in Heritage Luma Pty Limited	140,000	140,000

Notes to the Financial Statements
For the Year Ended 31 July 2018

15 Trade and Other Payables

	2018	2017
	\$	\$
Current		
Trade payables	6,273,732	3,023,635
Employee benefits	282,844	234,525
Sundry payables and accrued expenses	957,602	1,516,226
	<u>7,514,178</u>	<u>4,774,386</u>

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

16 Tax assets and liabilities

Current Tax Liability (Assets)

Income tax payable (receivable)	<u>(17,447)</u>	696,082
	<u>(17,447)</u>	<u>696,082</u>

Deferred Tax Assets

	Opening Balance	Charged to Income	Closing Balance
	\$	\$	\$
Deferred tax assets			
Accruals and other timing differences	227,955	96,844	324,799
Recognition of previously unrecognised deferred tax assets attributable to tax losses	-	529,202	529,202
Balance at 31 July 2017	<u>227,955</u>	<u>626,046</u>	<u>854,001</u>
Accruals and other timing differences	324,799	25,491	350,290
Recognition of previously unrecognised deferred tax assets attributable to tax losses	529,202	(363,486)	165,716
Balance at 31 July 2018	<u>854,001</u>	<u>(337,995)</u>	<u>516,006</u>

Notes to the Financial Statements

For the Year Ended 31 July 2018

17 Borrowings

	2018	2017
	\$	\$
Current		
Unsecured liabilities:		
Insurance premium finance	152,839	131,881
Secured liabilities:		
Bank loans	<u>10,872,717</u>	<u>9,421,547</u>
	<u>11,025,556</u>	<u>9,553,428</u>

(a) Bank loan facility

The Bank Facility has been secured over:

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

As at 31 July 2018, the Group has a credit facility of \$17,000,000 (2017: \$15,000,000) of which \$6,127,283 (2017: \$5,578,453) is unused.

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

- A capital ratio of no less than 30%;
- A fixed charge coverage ratio of no less than 3.50 times; and
- A stock turn ratio of no less than 2.30 times.

The Group has complied with these covenants throughout the reporting period

(b) Defaults and breaches

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

Notes to the Financial Statements
For the Year Ended 31 July 2018

18 Employee Entitlements

	2018	2017
	\$	\$
Current		
Long service leave	183,424	190,134
Annual leave	505,465	337,009
	<u>688,889</u>	<u>527,143</u>
Non-current		
Long service leave	260,946	250,183
	<u>260,946</u>	<u>250,183</u>

19 Issued Capital

1,801,111,087 (2017: 1,801,111,087) Ordinary shares	25,915,489	25,915,489
	<u>25,915,489</u>	<u>25,915,489</u>

(a) Ordinary shares

	2018	2017
	No.	No.
At the beginning of the reporting period	1,801,111,087	1,801,111,087
	-	-
At the end of the reporting period	<u>1,801,111,087</u>	<u>1,801,111,087</u>

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, 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 Company does not have authorised capital or par value in respect of its shares.

(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 Financial Statements
For the Year Ended 31 July 2018

19 Issued Capital (continued)

(b) Capital Management (continued)

	2018	2017
	\$	\$
Total borrowings	11,025,556	9,553,428
Less cash and cash equivalents	(287,557)	(442,988)
	10,737,999	9,110,440
Total equity	29,152,323	26,544,576
Total Capital	39,890,322	35,655,016
Gearing ratio	27%	26%

20 Earnings per Share

Earnings used to calculate overall earnings per share:
Earnings used to calculate overall earnings per share

2,607,747	3,846,479
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Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS:

	2018	2017
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	1,801,111,087	1,801,111,087
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	1,801,111,087	1,801,111,087

Notes to the Financial Statements
For the Year Ended 31 July 2018

21 Cash Flow Information

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

	2018	2017
	\$	\$
Profit for the year	2,607,747	3,846,479
Non-cash flows in profit:		
- depreciation	456,612	386,309
- loss on disposal of plant and equipment	(257)	26,972
- impairment of receivables	21,026	1,723
- write-down of inventory	(25,380)	204,546
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	(3,063,411)	(2,078,052)
- (increase)/decrease in prepayments	(481,140)	(292,153)
- (increase)/decrease in inventories	(1,283,673)	(544,348)
- increase/(decrease) in trade and other payables	2,739,792	(3,274,360)
- increase/(decrease) in income taxes	(375,534)	(35,808)
- increase/(decrease) in employee entitlements	172,509	124,365
Cashflows from operations	768,291	(1,634,327)

22 Leasing Commitments

Operating Leases

Minimum lease payments under non-cancellable operating leases:

- not later than one year	1,719,252	1,335,844
- between one year and five years	1,465,727	2,225,110
	3,184,979	3,560,954

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. Provisions within the lease agreement require the minimum lease payments shall be 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.

Notes to the Financial Statements

For the Year Ended 31 July 2018

23 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments. The Group only enters into defensive Financial Instruments.

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

- Liquidity risk
- Credit risk
- Market risk - being currency risk, interest rate risk and price 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.

Objectives, policies and processes

Risk management is carried out by the Group's senior management under the delegated power from the Board of Directors. The Finance Manager has 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 Audit, Risk and Corporate Governance 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 Audit, Risk and Corporate Governance 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.

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.

Notes to the Financial Statements

For the Year Ended 31 July 2018

23 Financial Risk Management (continued)

Liquidity risk (continued)

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall 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.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for 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.

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

	Within 1 year		1 to 5 years		Total	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Trade and other payables	7,514,178	4,774,386	-	-	7,514,178	4,774,386
Borrowings - principal	11,025,556	9,553,428	-	-	11,025,556	9,553,428
Total	18,539,734	14,327,814	-	-	18,539,734	14,327,814

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, derivative financial instruments and 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.

Notes to the Financial Statements

For the Year Ended 31 July 2018

23 Financial Risk Management (continued)

Credit risk (continued)

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.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties.

On a geographical basis, the Group has significant credit risk exposures in Australia given the substantial operations in that country.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

Exposures to currency exchange rates arise from the Group's overseas sales and purchases.

To mitigate the Group's exposure to foreign currency risk, non-Australian Dollar cash flows are monitored and forward exchange contracts are entered into in accordance with the Group's risk management policies.

Whilst these forward contracts are economic hedges of the cash flow risk, the Group does not apply hedge accounting to these transactions. The implications of this decision are that unrealised foreign exchange gains and losses are recognised in profit and loss in the period in which they occur.

The exposure to foreign currency denominated financial assets and liabilities at balance date is not considered to be material.

(ii) Interest rate risk

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

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 2018, 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 \$85,445 higher/\$85,445 lower (2017 - changes of +100 bps/-100 bps: \$85,406 higher/\$85,406 lower), mainly as a result of higher/lower interest expense from borrowings. Other components of equity would have been \$85,445 lower/\$85,445 higher (2017 - \$85,406 lower/\$85,406 higher) mainly as a result of an increase/decrease in the fair value of borrowings.

Notes to the Financial Statements

For the Year Ended 31 July 2018

24 Dividends

No dividends have been declared or paid during the year.

A fully franked dividend of 0.05 cents per share, totalling \$900,556, was declared on 18 September 2018.

Franking account

	2018	2017
	\$	\$
The franking credits available for subsequent financial years at a tax rate of 30%	<u>5,340,054</u>	<u>4,441,350</u>

The above available balance is based on the dividend franking account at year-end adjusted for franking credits that will arise from the payment of the current tax liabilities;

The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.

25 Auditors' Remuneration

Remuneration of the auditor for:

- Audit and review of the financial report	49,480	47,939
- taxation services provided by related practice of auditor	13,740	5,350
	<u>63,220</u>	<u>53,289</u>

Notes to the Financial Statements

For the Year Ended 31 July 2018

26 Related Parties

The Group's main related parties

The Group's main related parties are Key management personnel (including all directors) - refer to Note 27.

Other related parties include close family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel or their close family members.

There were no transactions between related parties during the year.

27 Key Management Personnel Remuneration

Key management personnel (including all directors) remuneration included within employee expenses for the year is shown below:

	2018	2017
	\$	\$
Short-term employee benefits	922,069	842,587
Long-term benefits	10,666	15,504
Post-employment benefits	67,239	67,239
	999,974	925,330

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 2018.

Notes to the Financial Statements
For the Year Ended 31 July 2018

28 Parent Entity

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

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

Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

Heritage Brands Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts 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 parent entity.

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.

Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 July 2018 or 31 July 2017.

Contractual commitments

The parent entity did not have any commitments as at 31 July 2018 or 31 July 2017.

Notes to the Financial Statements
For the Year Ended 31 July 2018

28 Parent entity (continued)

	2018	2017
	\$	\$
Statement of Financial Position		
Assets		
Current assets	17,447	696,082
Non-current assets	16,835,015	16,835,015
Total Assets	<u>16,852,462</u>	<u>17,531,097</u>
Liabilities		
Current liabilities	17,447	696,082
Total Liabilities	<u>17,447</u>	<u>696,082</u>
Equity		
Issued capital	25,915,489	25,915,489
Retained earnings	(9,080,474)	(9,080,474)
Total Equity	<u>16,835,015</u>	<u>16,835,015</u>
Statement of Profit or Loss and Other Comprehensive Income		
Profit for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	<u>-</u>	<u>-</u>

29 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 July 2018 (31 July 2017: None).

30 Events Occurring After the Reporting Date

The financial report was authorised for issue on 18 September 2018 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.

31 Statutory Information

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

Heritage Brands Ltd
30 Bando Road
Springvale VIC 3171

Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes for the year ended 31 July 2018 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards, which, as stated in basis of preparation 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 Finance Officer have given the declarations required by section 295A that:
 - a. the financial records of the Company 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 Company will be able to pay its debts as and when they become due and payable.

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



Director

Dated 18 September 2018

ROTHSAY

CHARTERED ACCOUNTANTS

HERITAGE BRANDS LTD AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT

To the members of Heritage Brands Ltd:

Opinion

We have audited the financial report of Heritage Brands Ltd (the "Company") and its controlled entities ("the Group"), which comprises the statement of financial position as at 31 July 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 July 2018 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



HERITAGE BRANDS LTD AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT (continued)

Recoverability of Intangible Assets	How our Audit Addressed the Key Audit Matter
<p>At 31 July 2018 the Group has intangible assets of \$19,253,135.</p> <p>The recorded value of intangible assets is assessed for recoverability by the directors at least annually or more frequently if events or changes in circumstances indicate that the asset may have suffered an impairment.</p> <p>Recoverability is assessed through a discounted cash flow analysis, whereby future cash flows are estimated and a discount is applied in order to arrive at a present value of the future cash flows. The value derived is then compared with the recorded value of the intangible assets and if lower an impairment charge will be recorded.</p> <p>We focussed on this area given the significant judgement involved in assessing the recoverable amount of these assets.</p>	<p>We checked the calculations and assessed the reasonableness of inputs into the directors' discounted cash flow analysis.</p> <p>We also performed sensitivity checks of the discounted cash flow analysis.</p> <p>We considered the appropriateness of the recoverability assessment and considered whether it was in line with Australian Accounting Standards and generally accepted accounting principles.</p> <p>We assessed whether the disclosures included in the financial report met the requirements of Australian Accounting Standards.</p>
Inventory Obsolescence	How our Audit Addressed the Key Audit Matter
<p>At 31 July 2018, the Group has inventories of \$13,455,970.</p> <p>The Group recognises an allowance for obsolescence where it expects the net realisable value of inventory to fall below its cost price.</p> <p>This will occur where inventory becomes aged, damaged or obsolete and will be sold below its cost price in order to clear.</p> <p>We considered this area significant because management exercises significant judgement in assessing the adequacy of the allowance for inventory obsolescence. Judgement involves the consideration of expected future sales, demand in inventory, probability of inventory becoming obsolete, aging profile of inventory and related historical sales experience. As such we determined that this is a key audit matter.</p>	<p>We assessed the consistency and reasonableness of management's basis for allowance of inventory obsolescence with respect to aged or slow-moving inventories.</p> <p>We considered the results of management's previous actions to sell slow-moving inventory.</p> <p>We assessed whether the disclosures included in the financial report met the requirements of Australian Accounting Standards.</p>



HERITAGE BRANDS LTD AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT (continued)

Doubtful Debtors	How our Audit Addressed the Key Audit Matter
<p>At 31 July 2018, the Group's trade and other receivables balance was \$14,129,857.</p> <p>The assessment of recoverability of trade receivables requires significant judgement in assessing the probability of significant financial difficulty of the debtor defaulting or delaying receipt of payments.</p> <p>We focussed on this area given the significant judgement involved in assessing the recoverable amount of these assets.</p>	<p>We obtained an understanding of the Group's processes and controls relating to the monitoring of trade receivables and review of credit risk of customers.</p> <p>We selected a sample of debtors and checked the evidence of receipts from the customers subsequent to the year end.</p> <p>We evaluated management's assumptions and estimates used to determine the allowance for doubtful debts</p> <p>We assessed whether the disclosures included in the financial report met the requirements of Australian Accounting Standards.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 July 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of Directors 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 preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



HERITAGE BRANDS LTD AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



HERITAGE BRANDS LTD AND ITS CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT (continued)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Rothsay Chartered Accountants

Frank Vrachas

Partner

Sydney, 20 September 2018

Additional Information for Listed Public Companies

31 July 2018

NSX Additional Information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 31 July 2018.

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.

Options

No voting rights.

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	66	588,986
10,001 - 100,000	109	4,810,534
100,000 and over	83	1,795,698,953

There were 76 security holders of less than a marketable parcel (\$500) of ordinary shares at 31 July 2018.

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	135,644,827	7.53%
AKOCA PTY LTD *	120,174,134	6.67%
RAWLO INTERNATIONAL PTY LTD *	110,672,727	6.14%
MR STEPHEN MASON *	94,046,177	5.22%
MAXIMIZE EQUITY PTY LTD *	91,431,644	5.08%
MR STEPHEN LESLIE MASON *	69,848,883	3.88%
S GOODEY PTY LTD	39,487,967	2.19%
PTJ HOLDINGS PTY LIMITED	31,698,634	1.76%
JKL DEVELOPMENTS PTY LIMITED	31,698,634	1.76%
MR STEVEN ANDREW O'NEILL	18,299,034	1.02%
MR CONSTANTINOS GENDIS *	13,333,333	0.74%
NATIONAL NOMINEES LIMITED	11,500,000	0.64%
KISTANI HOLDINGS PTY LIMITED *	11,369,060	0.63%
MR CHRISTOPHER MC GIBBON & MRS ELIZABETH MC GIBBON	8,003,333	0.44%
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,400,000	0.41%
MR ALEXANDER DAMIEN BEARD & MRS MARIE PASCALE BEARD	7,000,000	0.39%
KAPLAN FAMILY SUPERFUND	7,000,000	0.39%

* Signifies a Director controlled entity.

Unissued equity securities

Options issued 10,000,000.

Heritage Brands Ltd and Controlled Entities
ACN 081 149 635

Additional Information for Listed Public Companies

31 July 2018

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 National Stock Exchange. 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.