

HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES

ABN: 91 081 149 635

**Financial Report For The Year Ended
31 July 2012**

HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES

ABN: 91 081 149 635

Financial Report For The Year Ended 31 July 2012

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**HERITAGE BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Your directors present their report, together with the consolidated financial statements of Heritage Brands Limited (the Company) and its controlled entities (the Group) for the financial year ended 31 July 2012.

Principal Activities and Significant Changes in Nature of Activities

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

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

Operating Results and Review of Operations for the year

Operating Results

The Group recorded a net profit of \$1,259,503 for the full year ended 31 July 2012. This result is an improvement over the previous corresponding year (31 July 2011: loss of \$408,381).

The improvement in profit was a result of improved sales from the Company's key brands coupled with marketing, warehousing, employee and logistics cost savings.

Also the previous years result was affected by one-off relocation expenses which had a material impact on profitability in 2011.

In June 2012, the Group purchased two brands namely In Essence and Oil Garden for \$2,000,000 and the related inventories.

Review of Operations

Revenue for the year was \$26,786,087 (2011: \$24,652,795). Net income after tax for the year was \$1,259,503 (2011: loss of \$408,381).

The Group delivered a satisfactory result considering the depressed retail markets, with net sales up 5.8% and EBITDA up 24% compared to the previous financial year.

The improvement in results is due to improved marketing and trade spend, niche consumer marketing, effective inventory management, focus on sales forecasting and financial discipline.

In late June 2012 the Group acquired two leading aromatherapy brands and was funded from existing cash reserves. The acquisitions provide a strong strategic fit and the new brands, In Essence and Oil Garden, are expected to deliver increased sales and contribution and also open up Health Stores as a new retail sales channel.

Financial Position

The net assets of the Group have increased from \$4,632,698 on 31 July 2011 to \$5,892,201 on 31 July 2012. This increase is primarily due to the improved operating performance of the Group.

The Group's improved financial position has enabled it to reduce its debtor finance borrowings on a year on year basis, from \$2,088,268 to \$1,281,619, while maintaining a reasonable working capital ratio.

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

Summary of Performance

| | 2008 | 2009 | 2010 | 2011 | 2012 | |
|-------------------------------|--------|---------|---------|---------|---------|--------|
| Revenue | \$'000 | 2,655 | 2,364 | 7,094 | 24,793 | 26,786 |
| Net profit/(loss) before tax | \$'000 | (320) | (6,212) | (2,718) | (408) | 1,260 |
| Total assets | \$'000 | 6,054 | 1,069 | 4,317 | 14,772 | 16,951 |
| Total liabilities | \$'000 | 1,282 | 1,527 | 3,631 | 10,139 | 11,059 |
| Shareholders' funds | \$'000 | 4,772 | (458) | 686 | 4,632 | 5,892 |
| Earnings per share | Cents | (0.94) | (13.88) | (1.63) | (0.09) | 0.28 |
| Dividends per share | Cents | - | - | - | - | - |
| Net tangible assets per share | Cents | 4.34 | (0.99) | (0.36) | (0.12) | (0.28) |
| Price earnings ratio | x | (15.94) | (0.72) | (1.29) | (24.68) | 7.99 |

HERITAGE BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES DIRECTORS' REPORT

Significant Changes in State of Affairs

There are no significant changes in the state of affairs of the Group occurred during the financial year.

Dividends Paid or Recommended

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

Events after the Reporting Period

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect the operations of the Group in future financial years, the results of those operations, or the state of affairs of the Group in future financial years.

Future Developments, Prospects and Business Strategies

To further improve the Group's profit and maximise shareholder wealth, the following developments are intended for implementation in the near future:

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, Innox, Nailene, Fing'rs, Revlon nails, Imedeem, In Essence and Oil Garden.

Environmental Issues

The Group's operations are not subject to any significant environmental regulations under the law of the Commonwealth and State.

Information on Directors

| | |
|--------------------------------|---|
| FAIRFULL David John | — Non-Executive Chairman |
| Qualifications | — B.Com (UNSW), A.C.I.S., C.P.A., Ffin, M.A.I.C.D. |
| Experience | — Mr. David John Fairfull is merchant banker with over 40 years experience in mergers and acquisitions and underwriting projects. During the past three years, Mr. Fairfull has served as a Director of the following listed companies: Souls Private Equity Limited Drill Torque Limited* New Hope Corporation Limited* Washington H. Soul Pattinson and Company Limited* * denotes current directorship Mr. Fairfull represents Soul Private Equity Limited (SPEL), a major shareholder of the Group. SPEL holds 114,962,106 Fully Paid Ordinary Shares - 25.12% of issued capital. |
| Interest in Shares and Options | — 620,000 Fully Paid Ordinary Shares |
| KROK Maxim | — Non-Executive Director |
| Interest in Shares and Options | — The director is a nominee director appointed by Maximize Equity Pty Ltd (holding 91,431,644 Fully Paid Ordinary Shares - 19.98% of issued capital), the ultimate holding company of Kistani Holdings Pty Ltd (Kistani). Kistani holds 11,369,060 Fully Paid Ordinary Shares - 2.48% of issued capital. |
| Special Responsibilities | — Chairman of remuneration committee and member of audit committee |
| BEINART Steven | — Non-Executive Director |
| Interest in Shares and Options | — The director is a nominee director appointed by Maximize Equity Pty Ltd (holding 91,431,644 Fully Paid Ordinary Shares - 19.98% of issued capital), an ultimate holding company of Kistani Holdings Pty Ltd (Kistani). Kistani holds 11,369,060 Fully Paid Ordinary Shares - 2.48% of issued capital. |
| Special Responsibilities | — Member of remuneration committee |

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

| | | |
|--|---|---|
| GOODEY Stephen Donald Alfred | — | Managing Director |
| Qualifications | — | B.Com, MBA, IMM |
| Experience | — | Extensive experience in FMCG companies internationally. |
| Interest in Shares and Options | — | 18,299,034 Fully Paid Ordinary Shares - 4.00% of issued capital. |
| Special Responsibilities | — | Chief Executive |
| MASON Stephen Leslie | — | Non-Executive Director |
| Qualifications | — | LLB BComm DipCM FCPA FCSA JP |
| Experience | — | Formerly CEO of Creative Brands Pty Ltd and Finance Director of ASX listed Lemarne Corporation Ltd for over 10 years and Company Secretary for 20 years. |
| Interest in Shares and Options | — | 63,895,060 Fully Paid Ordinary Shares - 13.96% of issued capital. |
| Special Responsibilities | — | Member of audit committee up to 22 November 2011; Chairman of audit committee commencing 23 November 2011 |
| Directorships held in other listed entities during the three years prior to the current year | — | Lemarne Corporation Limited |
| McCARTNEY William Thomson | — | Non-Executive Director |
| Experience | — | Over 40 years experience in the Cosmetic fragrance, toiletry, food and flavour industry in Australia, South East Asia and China. |
| Interest in Shares and Options | — | The director is a nominee director appointed by Rawlo International Inc (holding 80,671,614 Fully Paid Ordinary Shares - 17.63% of issued capital). |
| Special Responsibilities | — | Member of remuneration committee |
| COX Peter Henry Townsend | — | Non-Executive Director |
| Qualifications | — | B Com (Melb) CA |
| Experience | — | Extensive experience in accounting and finance including 30 years as a Chartered Accountant in both public practice and as a finance director. |
| Interest in Shares and Options | — | 18,299,834 Fully Paid Ordinary Shares - 4.00% of issued capital. |
| Special Responsibilities | — | Chairman of audit committee up to 22 November 2011 |
| SMITH Brent Charles Albert | — | Non-Executive Director |
| Qualifications | — | B.Bus, F.Fin |
| Experience | — | Mr. Brent Smith is an investment banker with over 13 years experience advising both local and international companies across a wide variety of sectors. During this time Brent has worked on a broad range of mergers and acquisitions, capital raisings, restructurings and strategic reviews. |
| Interest in Shares and Options | — | Mr. Smith represents Soul Private Equity Limited (SPEL), the largest shareholder of the Group. SPEL holds 114,962,106 Fully Paid Ordinary Shares - 25.12% of issued capital. |
| Special Responsibilities | — | Member of audit committee |

Company Secretary

The following person held the position of Company secretary at the end of the financial year:
MCGIBBON, Christopher William was appointed Company Secretary on 09 February 2009.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Meetings of Directors

During the financial year, 12 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

| | Remuneration | | Audit | | Directors' Meetings | |
|------------------------------|---------------------------|-----------------|---------------------------|-----------------|---------------------------|-----------------|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| FAIRFULL David John | - | - | - | - | 8 | 8 |
| KROK Maxim | 2 | 2 | 2 | 2 | 8 | 7 |
| BEINART Steven | 2 | 2 | - | - | 8 | 4 |
| GOODEY Stephen Donald Alfred | - | - | - | - | 8 | 8 |
| MASON Stephen Leslie | - | - | 2 | 2 | 8 | 8 |
| McCARTNEY William Thomson | 2 | 2 | - | - | 8 | 8 |
| COX Peter Henry Townsend | - | - | 1 | 1 | 8 | 7 |
| SMITH Brent Charles Albert | - | - | 2 | 2 | 8 | 8 |

Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of director or company secretary of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The premiums paid amounted to \$11,620 (2011: \$14,591).
- No indemnities have been issued or insurance premium paid in respect of auditors of the Company.

Options

At the date of this report, there are no unissued ordinary shares of Heritage Brands Limited under option.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of the reporting period.

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

During the year ended 31 July 2012, no ordinary shares of Heritage Brands Limited were issued on the exercise of options granted. No further shares have been issued since year end, on the exercise of options granted.

Proceedings on Behalf of Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Non-audit Services

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

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does 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 auditors related entity, Rothsay Accounting Services Pty Ltd for non-audit services provided during the year ended 31 July 2012:

| | |
|----------------------------------|---------------------|
| | \$ |
| Taxation services (excludes GST) | <u>7,500</u> |
| | <u><u>7,500</u></u> |

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 July 2012 has been received and can be found on page 8 of the Financial Report.

REMUNERATION REPORT (Audited)

Remuneration policy

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

The Board's policies for determining the nature and amount of remuneration for KMP of the Group are as follows:

- The remuneration policy is to be developed by the remuneration committee and approved by the Board;
- All KMP receive a base salary, superannuation, fringe benefits and performance incentives;
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met; and
- The remuneration committee reviews KMP 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 leading to long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at the cost to the Company and expensed.

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

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Performance-based Remuneration

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

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

In determining whether or not a KPI has been achieved, Heritage Brands Limited bases the assessment on audited figures, however, where the KPI involves comparison of the Group or a division within the Group to the market, independent reports are obtained from various organisations .

Relationship between Remuneration Policy and Company Performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The method that has been applied to achieve this aim is the performance-based bonus based on KPI.

Employment Details of Members of Key Management Personnel

The following table provides employment details of persons who were, during the financial year, members of KMP of the Group. The table also illustrates the proportion of remuneration that was performance and non-performance based.

| Position Held as at 31 July 2012 and any change during the year | Proportions of elements of remuneration related to performance | Proportions of elements of remuneration not related to performance | |
|---|--|--|---------|
| | Non-salary cash based incentives % | Fixed Salary/Fees % | Total % |
| Group KMP GOODEY Stephen Donald Alfred | 4.27 | 95.73 | 100.00 |
| McGIBBON Christopher William | 4.27 | 95.73 | 100.00 |

The employment terms and conditions of KMP are formalised in contracts of employment.

Remuneration Details for the Year Ended 31 July 2012

The following table of benefits and payments details, in respect to the financial year, the components of remuneration for each member of KMP of the Group:

Table of Benefits and Payments for the year ended 31 July 2012

| | Short-term benefits | | Post Employment | Total |
|---------------------------------------|---------------------------|---------------|----------------------------|----------------|
| | Salary, Fees and Leave \$ | Bonuses \$ | Superannuation Benefits \$ | |
| 2012 | | | | |
| Group Key Management Personnel | | | | |
| GOODEY Stephen Donald Alfred | 307,346 | 15,000 | 29,011 | 351,357 |
| McGIBBON Christopher | 258,633 | 12,500 | 21,586 | 292,719 |
| Total Key Management Personnel | 565,979 | 27,500 | 50,597 | 644,076 |

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

| Short-term benefits | | Post Employment | Total | |
|---------------------------------------|----------------|----------------------------------|---------------|----------------|
| Salary, Fees and Leave \$ | Bonuses \$ | Superannuation Benefits \$ | | |
| 2011 | | | | |
| Group Key Management Personnel | | | | |
| GOODEY Stephen Donald Alfred | 314,932 | (a) | 28,344 | 343,276 |
| McGIBBON Christopher | 232,336 | (a) | 18,750 | 251,086 |
| Total Key Management Personnel | 547,268 | - | 47,094 | 594,362 |

2011

Group Key Management Personnel

GOODEY Stephen Donald Alfred

McGIBBON Christopher

Total Key Management Personnel

(a) There were no bonuses to be earned in 2011.

Securities Received that are not Performance Related

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

Cash Bonuses, Performance-Related Bonuses and Share-based Payments

No options were granted as remuneration during the year to KMP. The cash bonus payments are disclosed above.

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



FAIRFULL David John

Dated: 4 October 2012



**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 31 July 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Name of Firm Rothsay Chartered Accountants

A handwritten signature in blue ink, appearing to read 'G Swan', is written over the signature line.

Name of Partner Graham Swan

Date 4 October 2012

Address Level 1, 12 O'Connell Street, SYDNEY NSW 2000



**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2012**

| | Note | Consolidated Group | |
|--|------|---------------------|---------------------|
| | | 2012 \$ | 2011 \$ |
| Revenue from continuing operations | | | |
| Revenue | 3 | 26,786,087 | 24,652,795 |
| Other income | 3 | 58,034 | 140,603 |
| | | 26,844,121 | 24,793,398 |
| Expenses | | | |
| Cost of goods sold | | (14,455,925) | (12,961,140) |
| Employee benefits expense | | (4,059,013) | (4,026,334) |
| Advertising and promotion | | (3,536,156) | (3,520,638) |
| Consultancy fees | | (393,983) | (481,918) |
| Freight & cartage | | (160,884) | (151,186) |
| Occupancy expenses | | (417,555) | (450,158) |
| Relocation costs | | - | (982,451) |
| Depreciation and amortisation expense | | (481,794) | (665,349) |
| Finance costs | | (741,812) | (798,169) |
| Other expenses | | (1,337,496) | (1,164,436) |
| | | (25,584,618) | (25,201,779) |
| Profit/(loss) before income tax | 4 | 1,259,503 | (408,381) |
| Income tax expense | 5 | - | - |
| Net Profit/(loss) for the year | 4 | 1,259,503 | (408,381) |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year | | 1,259,503 | (408,381) |
| Net profit attributable to: | | | |
| Members of the parent entity | | 1,259,503 | (408,381) |
| | | 1,259,503 | (408,381) |
| Total comprehensive income attributable to: | | | |
| Members of the parent entity | | 1,259,503 | (408,381) |
| | | 1,259,503 | (408,381) |
| Earnings per share | | | |
| Basic earnings per share (cents) | 8 | 0.28 | (0.09) |
| Diluted earnings per share (cents) | 8 | 0.28 | (0.09) |

The accompanying notes form part of these financial statements.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 JULY 2012**

| | Note | Consolidated Group | |
|--------------------------------------|------|--------------------|-------------------|
| | | 2012 \$ | 2011 \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 9 | 273,570 | 158,533 |
| Trade and other receivables | 10 | 3,715,090 | 2,988,656 |
| Inventories | 11 | 4,534,758 | 5,015,942 |
| Other assets | 15 | 237,134 | 174,538 |
| TOTAL CURRENT ASSETS | | 8,760,552 | 8,337,669 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | 582,048 | 885,221 |
| Deferred tax assets | 18 | 423,166 | 363,566 |
| Intangible assets | 14 | 7,185,472 | 5,185,472 |
| TOTAL NON-CURRENT ASSETS | | 8,190,686 | 6,434,259 |
| TOTAL ASSETS | | 16,951,238 | 14,771,928 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 16 | 5,167,428 | 3,646,492 |
| Borrowings | 17 | 1,281,619 | 2,088,268 |
| Provisions | 19 | 99,422 | 7,246 |
| TOTAL CURRENT LIABILITIES | | 6,548,469 | 5,742,006 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 17 | 4,268,746 | 4,138,746 |
| Deferred tax liabilities | 18 | 64,627 | 22,881 |
| Provisions | 19 | 177,195 | 235,597 |
| TOTAL NON-CURRENT LIABILITIES | | 4,510,568 | 4,397,224 |
| TOTAL LIABILITIES | | 11,059,037 | 10,139,230 |
| NET ASSETS | | 5,892,201 | 4,632,698 |
| EQUITY | | | |
| Issued capital | 20 | 16,102,935 | 16,102,935 |
| Accumulated losses | | (10,210,734) | (11,470,237) |
| TOTAL EQUITY | | 5,892,201 | 4,632,698 |

The accompanying notes form part of these financial statements.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JULY 2012**

| | Share Capital | Accumulated losses | Total |
|---|------------------|-----------------------|-----------|
| | \$ | \$ | \$ |
| Consolidated Group | | | |
| Balance at 1 August 2010 | 11,747,678 | (11,061,856) | 685,822 |
| Comprehensive income/(loss) | | | |
| Loss for the year | - | (408,381) | (408,381) |
| Total comprehensive income/(loss) for the year | - | (408,381) | (408,381) |
| Transactions with owners, in their capacity as owners, and other transfers | | | |
| Shares issued during the year | 4,355,257 | - | 4,355,257 |
| Total transactions with owners and other transfers | 4,355,257 | - | 4,355,257 |
| Balance at 31 July 2011 | 16,102,935 | (11,470,237) | 4,632,698 |
| Balance at 1 August 2011 | 16,102,935 | (11,470,237) | 4,632,698 |
| Comprehensive income | | | |
| Profit for the year | - | 1,259,503 | 1,259,503 |
| Total comprehensive income for the year | - | 1,259,503 | 1,259,503 |
| Balance at 31 July 2012 | 16,102,935 | (10,210,734) | 5,892,201 |

The accompanying notes form part of these financial statements.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 JULY 2012**

| | Note | Consolidated Group | |
|--|------|--------------------|--------------|
| | | 2012 \$ | 2011 \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 25,974,453 | 28,447,568 |
| Interest received | | 2,813 | 14,156 |
| Payments to suppliers and employees | | (22,910,016) | (30,832,137) |
| Finance costs | | (738,998) | (798,169) |
| Net cash provided by/(used in) operating activities | 24a | 2,328,252 | (3,168,582) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of business brands and inventories | 24b | (1,359,580) | - |
| Purchase of property, plant and equipment | | (178,621) | (369,309) |
| Payment for subsidiary, net of cash acquired | 24b | - | 504,139 |
| Net cash (used in)/provided by investing activities | | (1,538,201) | 134,830 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | 130,000 | 2,838,149 |
| Repayment of borrowings | | (805,014) | - |
| Net cash (used in)/provided by financing activities | | (675,014) | 2,838,149 |
| Net increase/(decrease) in cash held | | 115,037 | (195,603) |
| Cash and cash equivalents at beginning of financial year | 9 | 158,533 | 354,136 |
| Cash and cash equivalents at end of financial year | 9 | 273,570 | 158,533 |

The accompanying notes form part of these financial statements.

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012

These consolidated financial statements and notes represent those of Heritage Brands Limited and its Controlled Entities ("the Consolidated Group" or "the Group"). The separate financial statements of the parent entity, Heritage Brands Ltd, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 27th September 2012 by the directors of the company.

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Heritage Brands Limited at the end of the reporting period. A controlled entity is any entity over which Heritage Brands Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 12 to the financial statements.

In preparing the consolidated financial statements, all intra Group balances and transactions between entities in the Consolidated Group have been eliminated in full on consolidation.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less any 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.

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or Groups of cash generating units, representing the lowest level at which goodwill is monitored 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 disposed of.

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

(b) Income Tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

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Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(d) Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(s) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line or written down value basis over the asset's useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|-----------------------------|--------------------------|
| Plant and equipment | 7.5-40% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

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(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) are transferred to entities in the Consolidated Group, are classified as finance leases.

Finance leases are capitalised by recognising 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.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

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

(f) Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

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(v) Financial Liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment of Financial Assets

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset or a Group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a Group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(g) Impairment of Non-Financial Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(h) Intangibles Other than Goodwill

Trademarks

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

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income, otherwise the exchange difference is recognised in the profit or loss.

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Group companies

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

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

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

(j) Employee Benefits

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

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any 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 attributable to employee benefits.

(k) Provisions

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

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

(m) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred it is treated as the provision of financing and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method.

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

(n) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(f) for further discussion on the determination of impairment losses.

(o) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(p) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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(q) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(s) Critical Accounting Estimates and Judgments

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

Key Estimates

(i) Impairment of Intangible Assets

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

With respect to cash flow projections for plant and equipment based in Australia, growth rates of 3% have been factored into valuation models for the next five years on the basis of management's expectations around the Group's continued ability to capture market share from competitors. Cash flow growth rates of 3% subsequent to this period have been used as this reflects historical industry averages. The rates used incorporate allowance for inflation. Pre-tax discount rates of 5-year government bonds yield rates have been used in all models.

No impairment has been recognised in respect of goodwill and trademarks at the end of the reporting period. Should the projected turnover figures be less than 20% of budgeted figures incorporated in value-in-use calculations, an impairment loss may be recognised.

Key Judgments

(i) Provision for Impairment of Receivables

The provision for impairment of receivables requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of individual debtors financial position. The directors believe that provisions for doubtful debts of \$9,136 (2011: \$9,199) and the provision for rebates of \$648,953 (2011: \$817,317) are reasonable and that all other trade debtors are fully recoverable as at the end of financial year.

(ii) Provision for Slow/ Obsolete Stock

The provision for slow/ obsolete stock assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence. The directors believe that provision for slow/ obsolete stock of \$196,300 (2011: \$486,691) is reasonable and that all other inventories are carried at their realisable values as at the end of the financial year.

(t) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

- *AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).*

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

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The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

- *AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009–11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).*

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either 'joint operations' (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or 'joint ventures' (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a 'structured entity', replacing the 'special purpose entity' concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

- *AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).*

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

- *AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).*

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

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Note 2 Parent Information (Heritage Brands Limited - Single Entity)

| | 2012 | 2011 |
|---|------------------|------------------|
| | \$ | \$ |
| The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards. | | |
| STATEMENT OF FINANCIAL POSITION | | |
| ASSETS | | |
| Current Assets | 10,000 | 17,817 |
| Non-current Assets | 7,043,162 | 7,055,611 |
| TOTAL ASSETS | 7,053,162 | 7,073,428 |
| EQUITY | | |
| Issued Capital | 16,102,935 | 16,102,935 |
| Retained earnings | (9,049,773) | (9,029,507) |
| TOTAL EQUITY | 7,053,162 | 7,073,428 |
| STATEMENT OF COMPREHENSIVE INCOME | | |
| Total net profit/(loss) | (30,742) | (20,266) |
| Total comprehensive income | (30,742) | (20,266) |

Guarantees

Heritage Brands Limited has not entered into any guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent liabilities

There are no contingent liabilities as at 31 July 2012 (2011: Nil).

Note 3 Revenue and Other Income

| | Consolidated Group | |
|---|---------------------------|-------------------|
| | 2012 | 2011 |
| | \$ | \$ |
| (a) Revenue from continuing operations | | |
| Sales revenue | | |
| — sale of goods | 26,718,410 | 24,536,932 |
| | 26,718,410 | 24,536,932 |
| Other revenue | | |
| — interest received | 2,813 | 14,156 |
| — other revenue | 64,864 | 101,707 |
| | 67,677 | 115,863 |
| Total revenue | 26,786,087 | 24,652,795 |
| Other income | | |
| — other income - shared services | 58,034 | 140,603 |
| Total other income | 58,034 | 140,603 |
| Total income | 26,844,121 | 24,793,398 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012**

Note 4 Profit for the Year

| | Note | Consolidated Group | |
|---|------|--------------------|------------|
| | | 2012 | 2011 |
| Profit before income tax from continuing operations includes the following specific expenses: | | \$ | \$ |
| (a) Expenses | | | |
| Cost of sales | | <u>14,455,925</u> | 12,961,140 |
| Interest expense on financial liabilities not at fair value through profit or loss: | | | |
| — Associated companies | | 424,996 | 295,629 |
| — Other persons | | <u>316,816</u> | 502,540 |
| Total finance cost | | <u>741,812</u> | 798,169 |
| Employee benefits expense | | | |
| — defined contribution superannuation expense | | <u>280,605</u> | 282,141 |
| Bad and doubtful debts: | | | |
| — trade receivables | | <u>29,111</u> | (8,123) |
| Total bad and doubtful debts | | <u>29,111</u> | (8,123) |
| Rental expense on operating leases | | | |
| — minimum lease payments | | 417,555 | 450,158 |
| Loss on disposal of property, plant and equipment | | 1,526 | 44,068 |
| Write-down of inventories to net realisable value | | 42,683 | 8,421 |
| Write-off of obsolete stock | | - | 255,007 |

Note 5 Income Tax Expense

| | | | |
|--|----|------------------|-------------|
| (a) The components of tax expense comprise: | | | |
| Current tax | | 455,124 | - |
| Deferred tax | 18 | 259,341 | - |
| Recoupment of prior year tax losses | | <u>(714,465)</u> | - |
| | | <u>-</u> | <u>-</u> |
| (b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows: | | | |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2011: 30%) | | | |
| — Consolidated Group | | 377,851 | (122,514) |
| Add: | | | |
| Tax effect of: | | | |
| — non-deductible depreciation and amortisation | | 64,627 | - |
| — other non-allowable items | | 12,647 | 1,987 |
| — Deferred tax assets not brought to account | | - | 232,274 |
| — Movement of deferred tax accounts | | <u>259,341</u> | - |
| | | <u>714,465</u> | 111,747 |
| Less: | | | |
| Tax effect of: | | | |
| — Other deductible expenses | | - | 111,747 |
| Recoupment of prior year tax losses not previously brought to account | | <u>714,465</u> | - |
| Income tax attributable to entity | | <u>-</u> | <u>-</u> |
| The applicable weighted average effective tax rates are as follows: | | <u>0.0%</u> | <u>0.0%</u> |

The weighted average effective consolidated tax rate for 2012 and 2011 is 0.0% as a result of utilisation of brought-forward tax losses previously unrecognised.

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Note 6 Key Management Personnel Compensation

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 31 July 2012.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

| | 2012 | 2011 |
|------------------------------|----------------|----------------|
| | \$ | \$ |
| Short-term employee benefits | 593,479 | 547,268 |
| Post-employment benefits | 50,597 | 47,094 |
| Total KMP compensation | <u>644,076</u> | <u>594,362</u> |

KMP Shareholdings

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

| | Balance at beginning of year | Other changes during the year | Balance at end of year |
|------------------------------|------------------------------------|----------------------------------|---------------------------|
| 31 July 2012 | | | |
| GOODEY Stephen Donald Alfred | 18,299,034 | - | 18,299,034 |
| McGIBBON Christopher William | 3,070,000 | - | 3,070,000 |
| | <u>21,369,034</u> | <u>-</u> | <u>21,369,034</u> |

| | Balance at beginning of year | Other changes during the year | Balance at end of year |
|------------------------------|------------------------------------|----------------------------------|---------------------------|
| 31 July 2011 | | | |
| GOODEY Stephen Donald Alfred | - | 18,299,034 | 18,299,034 |
| McGIBBON Christopher William | 3,070,000 | - | 3,070,000 |
| | <u>3,070,000</u> | <u>18,299,034</u> | <u>21,369,034</u> |

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 27: Related Party Transactions.

For details of loans to KMP, refer to Note 27: Related Party Transactions.

Note 7 Auditors' Remuneration

| | Consolidated Group | |
|---|--------------------|---------------|
| | 2012 | 2011 |
| | \$ | \$ |
| Remuneration of the auditor for: | | |
| — auditing or reviewing the financial report | 30,000 | 27,701 |
| — taxation services provided by related practice of auditor | 7,500 | 29,970 |
| | <u>37,500</u> | <u>57,671</u> |

Note 8 Earnings per Share

| | | |
|--|--------------------|--------------------|
| (a) Reconciliation of earnings to profit or loss | | |
| Profit | 1,259,503 | (408,381) |
| Earnings used to calculate basic EPS | <u>1,259,503</u> | <u>(408,381)</u> |
| Earnings used in the calculation of dilutive EPS | <u>1,259,503</u> | <u>(408,381)</u> |
| | No. | No. |
| (b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS | 457,622,635 | 451,656,531 |
| Weighted average number of dilutive options outstanding | - | 250,000 |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS | <u>457,622,635</u> | <u>451,906,531</u> |

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Note 9 Cash and Cash Equivalents

| | Note | Consolidated Group | |
|--------------------------|------|--------------------|----------------|
| | | 2012 | 2011 |
| Cash at bank and on hand | | \$ | \$ |
| | | 273,570 | 158,533 |
| | 28 | 273,570 | 158,533 |

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

| | | |
|---------------------------|----------------|----------------|
| Cash and cash equivalents | 273,570 | 158,533 |
| | 273,570 | 158,533 |

A floating charge over cash and cash equivalents has been provided for certain debt. Refer to Note 17 for further details.

Note 10 Trade and Other Receivables

CURRENT

| | | | |
|--|-----|------------------|------------------|
| Trade receivables | | 4,373,179 | 3,815,172 |
| Provision for impairment | 10a | (9,136) | (9,199) |
| Provision for rebates, incentives, and discounts | | (648,953) | (817,317) |
| Total current trade and other receivables | | 3,715,090 | 2,988,656 |

(a) Provision For Impairment of Receivables

Movement in the provision for impairment of receivables is as follows:

| | Opening Balance 01.08.10 | Charge for the Year | Amounts Written Off | Closing Balance 31.07.11 |
|---------------------------|-----------------------------|------------------------|------------------------|--------------------------------|
| Consolidated Group | \$ | \$ | \$ | \$ |
| Current trade receivables | 39,038 | | (29,839) | 9,199 |
| | 39,038 | - | (29,839) | 9,199 |
| | Opening Balance 01.08.11 | Charge for the Year | Amounts Written Off | Closing Balance 31.07.12 |
| Consolidated Group | \$ | \$ | \$ | \$ |
| Current trade receivables | 9,199 | 29,111 | (29,174) | 9,136 |
| | 9,199 | 29,111 | (29,174) | 9,136 |

(b) Credit risk

The Group has no significant concentration of credit risk with respect to any single counter party or Group of counter parties other than those receivables specifically provided for and mentioned within Note 10. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled with 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 are specific circumstances indicating that the debt may not be fully repaid to the Group.

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

| Consolidated Group | Gross Amount | Past due and impaired | Past due but not impaired (days overdue) | | | | Within initial trade terms |
|----------------------------|------------------|-----------------------|--|------------------|----------------|--------------|----------------------------|
| | | | <30 | 31-60 | 61-90 | >90 | |
| 2012 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade and term receivables | 4,373,179 | 9,136 | 934,722 | 245,326 | 58,859 | - | 3,125,136 |
| Total | 4,373,179 | 9,136 | 934,722 | 245,326 | 58,859 | - | 3,125,136 |
| Consolidated Group | Gross Amount | Past due and impaired | Past due but not impaired (days overdue) | | | | Within initial trade terms |
| | | | <30 | 31-60 | 61-90 | >90 | |
| 2011 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Trade and term receivables | 3,815,172 | 9,199 | 1,208,234 | 1,052,251 | 302,642 | 3,517 | 1,239,329 |
| Total | 3,815,172 | 9,199 | 1,208,234 | 1,052,251 | 302,642 | 3,517 | 1,239,329 |

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| | | Consolidated Group | |
|---|-------------|---------------------------|------------------|
| | | 2012 | 2011 |
| | | \$ | \$ |
| (c) Financial Assets Classified as Loans and Receivables | Note | | |
| Trade and other Receivables | | | |
| — Total current | | 3,715,090 | 2,988,656 |
| Financial assets | 28 | <u>3,715,090</u> | <u>2,988,656</u> |

(d) **Collateral Pledged**

A floating charge over trade receivables has been provided for certain debt. Refer to Note 17 for further details.

Note 11 Inventories

CURRENT

At net realisable value:

| | | |
|---|-------------------------|------------------|
| Finished goods | 4,731,058 | 5,502,633 |
| Provision for slow moving/ obsolete stock | (196,300) | (486,691) |
| | <u>4,534,758</u> | <u>5,015,942</u> |

Note 12 Controlled Entities

(a) **Controlled Entities Consolidated**

| | | Percentage Owned (%)* | |
|---|----------------|------------------------------|-------------|
| | | 2012 | 2011 |
| Subsidiaries of Heritage Brands Limited : | | | |
| Heritage Brands (Australia) Pty Ltd | Australia | 100 | 100 |
| Innoxia Group Pty Ltd | Australia | 100 | 100 |
| Innoxia Holdings Pty Ltd | Australia | 100 | 100 |
| Innoxia Marks Pty Ltd | Australia | 100 | 100 |
| Incolabs Pty Ltd | Australia | 100 | 100 |
| Soda Brands (NZ) Limited | New Zealand | 100 | 100 |
| Soda Brands (UK) Limited | United Kingdom | 100 | 100 |

* Percentage of voting power is in proportion to ownership

(b) **Acquisition of Controlled Entities**

2012: No entities were acquired.

2011: On 6 August 2010, the parent entity acquired 100% interest of Heritage Brands (Australia) Pty Ltd.

| | | Consolidated Group | |
|---|--|---------------------------|-------------------------|
| | | 2012 | 2011 |
| | | \$ | \$ |
| - Purchase consideration: | | | |
| - 217,762,810 ordinary shares in Heritage Brands Limited | | - | 4,355,256 |
| | | - | <u>4,355,256</u> |
| Less: | | | |
| Cash | | - | 504,139 |
| Receivables | | - | 3,164,974 |
| Prepaid expenses | | - | 129,553 |
| Inventories | | - | 2,734,805 |
| Property, plant and equipment | | - | 776,776 |
| Intangible assets (including deferred tax assets) | | - | 2,952,210 |
| Payables | | - | (3,978,463) |
| Loans & borrowings | | - | (2,618,865) |
| Deferred tax liabilities | | - | (22,881) |
| Provision for employees benefits | | - | (334,318) |
| Identifiable assets acquired and liabilities assumed | | - | <u>3,307,930</u> |
| Goodwill (i) | | - | <u>1,047,326</u> |

(i) The goodwill is attributable to the profitability of the acquired businesses and the significant synergies realised following the Group's acquisition of Heritage Brands (Australia) Pty Ltd.

(ii) No amount of the goodwill is deductible for tax purposes.

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Note 13 Plant and Equipment

| | Consolidated Group | |
|------------------------------|---------------------------|-----------------------|
| | 2012 | 2011 |
| | \$ | \$ |
| PLANT AND EQUIPMENT | | |
| Plant and equipment: | | |
| At cost | 5,036,520 | 5,384,615 |
| Accumulated depreciation | <u>(4,455,308)</u> | <u>(4,502,944)</u> |
| | 581,212 | 881,671 |
| Leasehold improvements | | |
| At cost | 44,675 | 44,675 |
| Accumulated amortisation | <u>(43,839)</u> | <u>(41,125)</u> |
| Total Leasehold Improvements | 836 | 3,550 |
| Total plant and equipment | <u>582,048</u> | <u>885,221</u> |

(a) Movements in Carrying Amounts

Movements in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

| | Note | Leasehold Improvements \$ | Plant and Equipment \$ | Total \$ |
|---|-------------|--|---------------------------------------|---------------------|
| Consolidated Group: | | | | |
| Balance at 1 August 2010 | | - | 448,551 | 448,551 |
| Additions | | 44,675 | 280,568 | 325,243 |
| Additions through acquisition of entity | 12b | - | 776,776 | 776,776 |
| Depreciation expense | | <u>(41,125)</u> | <u>(624,224)</u> | (665,349) |
| Balance at 31 July 2011 | | <u>3,550</u> | <u>881,671</u> | 885,221 |
| Additions | | - | 180,615 | 180,615 |
| Disposals | | - | (1,994) | (1,994) |
| Depreciation expense | | <u>(2,713)</u> | <u>(479,081)</u> | (481,794) |
| Balance at 31 July 2012 | | <u>837</u> | <u>581,211</u> | 582,048 |

Note 14 Intangible Assets

| | Consolidated Group | |
|---------------------|---------------------------|-------------|
| | 2012 | 2011 |
| | \$ | \$ |
| Goodwill | | |
| Cost | <u>2,596,828</u> | 2,596,828 |
| Net carrying amount | <u>2,596,828</u> | 2,596,828 |
| Trademarks | | |
| Cost | <u>4,588,644</u> | 2,588,644 |
| Net carrying amount | <u>4,588,644</u> | 2,588,644 |
| Total intangibles | <u>7,185,472</u> | 5,185,472 |

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| Consolidated Group: | Note | Goodwill | Trademarks | Total |
|----------------------------------|-------------|------------------|-------------------|-------------------------|
| Year ended 31 July 2011 | | \$ | \$ | \$ |
| Balance at the beginning of year | | 1,549,502 | - | 1,549,502 |
| Additions | 12b | 1,047,326 | 2,588,644 | 3,635,970 |
| | | <u>2,596,828</u> | <u>2,588,644</u> | <u>5,185,472</u> |
| Year ended 31 July 2012 | | | | |
| Balance at the beginning of year | | 2,596,828 | 2,588,644 | 5,185,472 |
| Additions | | - | 2,000,000 | 2,000,000 |
| Closing value at 31 July 2012 | | <u>2,596,828</u> | <u>4,588,644</u> | <u>7,185,472</u> |

Trademarks and goodwill have indefinite useful lives.

On 21 June 2012, the Group purchased the In Essence and Oil Garden brands for \$2,000,000 from Australian Natural Brands Pty Ltd. The terms include payment of \$1,000,000 on the date of purchase and the remaining balance after one year. The balance payable is included in trade and other payables.

Impairment disclosures

Goodwill and trademarks are allocated to cash-generating units which are based on the Group's reporting segments.

| | 2012 | 2011 |
|--------------------------------|-------------------------|------------------|
| | \$ | \$ |
| Consumer Products - Goodwill | 2,596,828 | 2,596,828 |
| Consumer Products - Trademarks | 4,588,644 | 2,588,644 |
| Total | <u>7,185,472</u> | <u>5,185,472</u> |

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period, using an estimated growth rate on the next year's financial budget, and a terminal value multiple. The cash flows are discounted using the yield of a 5-year government bond at the beginning of the budget period.

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

| | Growth Rate | Discount Rate |
|-------------------|--------------------|----------------------|
| Consumer Products | 3.00% | 20.00% |

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

Note 15 Other Assets

| | Note | Consolidated Group | |
|----------------|-------------|---------------------------|----------------|
| | | 2012 | 2011 |
| | | \$ | \$ |
| CURRENT | | | |
| Prepayments | | 227,767 | 163,265 |
| Other assets | | 9,367 | 11,273 |
| | | <u>237,134</u> | <u>174,538</u> |

Note 16 Trade and Other Payables

| CURRENT | | | |
|---|----|-------------------------|------------------|
| Unsecured liabilities | | | |
| Trade payables | | 3,239,647 | 2,984,705 |
| Sundry payables and accrued expenses | | 594,338 | 413,380 |
| Employees benefits | | 333,443 | 248,407 |
| Payable for the acquisition of new brands | 14 | <u>1,000,000</u> | - |
| | | <u>5,167,428</u> | <u>3,646,492</u> |

(a) Financial liabilities at amortised cost classified as trade and other payables

| | | | |
|---|----|-------------------------|------------------|
| Trade and other payables | | | |
| — Total current | | <u>5,167,428</u> | <u>3,646,492</u> |
| Less annual leave entitlements | | <u>5,167,428</u> | <u>3,646,492</u> |
| Financial liabilities as trade and other payables | 28 | <u>(244,243)</u> | <u>(248,407)</u> |
| | | <u>4,923,185</u> | <u>3,398,085</u> |

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Note 17 Borrowings

| | Note | Consolidated Group | |
|--|-----------|--------------------|------------------|
| | | 2012 | 2011 |
| | | \$ | \$ |
| CURRENT | | | |
| Unsecured liabilities | | | |
| Insurance refinancing | | 76,947 | 78,582 |
| | | <u>76,947</u> | <u>78,582</u> |
| Secured liabilities | | | |
| Debtor finance - Scottish Pacific Business Finance Pty Ltd | 17(a)(i) | 1,204,672 | 2,009,686 |
| | | <u>1,204,672</u> | <u>2,009,686</u> |
| Total current borrowings | | <u>1,281,619</u> | <u>2,088,268</u> |
| NON-CURRENT | | | |
| Secured liabilities | | | |
| Major shareholder (Maximize Equity Pty Ltd) | 17(a)(ii) | 949,431 | 949,431 |
| Major shareholder (Soul Private Equity Ltd) | 17(a)(ii) | 1,016,282 | 1,016,282 |
| Major shareholder (Rawlo International Inc) | 17(a)(ii) | 1,538,000 | 1,538,000 |
| Major shareholder (Others) | 17(a)(ii) | 765,033 | 635,033 |
| Total non-current borrowings | | <u>4,268,746</u> | <u>4,138,746</u> |
| Total borrowings | 28 | <u>5,550,365</u> | <u>6,227,014</u> |

(a) Collateral provided

Financial assets that have been pledged as part of the total collateral for the benefit of Scottish Pacific Business Finance Pty Ltd (the debtor finance provider) are as follows:

| | | | |
|--------------------------------|----|------------------|------------------|
| Cash and cash equivalents | 9 | 273,570 | 158,533 |
| Trade receivables | 10 | <u>3,715,090</u> | <u>2,988,656</u> |
| Total financial assets pledged | | <u>3,988,660</u> | <u>3,147,189</u> |

- (i) The collateral over financial assets represents a first fixed and floating charge over financial assets of Heritage Brands (Australia) Pty Ltd and second fixed and floating charge over financial assets of Heritage Brands Limited and Incolabs Pty Ltd. The Scottish Pacific Business Finance loans carries a current variable rate of interest @ 12% per annum.
- (ii) The shareholders' loans are secured by first ranking fixed and floating charge over assets of Heritage Brands Limited, Innoxia Group Pty Ltd, Innoxia Holdings Pty Ltd, Innoxia Marks Pty Ltd and Incolabs Pty Ltd (excluding those pledged to Scottish Pacific Business Finance) carrying a fixed rate of interest @ 10% per annum.

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Note 18 Tax

| NON-CURRENT | Opening Balance \$ | Charged to Income \$ | Closing Balance \$ |
|--------------------------------|--------------------------|----------------------------|--------------------------|
| Consolidated Group | | | |
| Deferred tax liability | | | |
| Property, plant and equipment | | | |
| - tax allowance | - | 22,881 | 22,881 |
| Balance at 31 July 2011 | - | 22,881 | 22,881 |
| | | | |
| Property, Plant and Equipment | | | |
| - tax allowance | 22,881 | 41,746 | 64,627 |
| Balance at 31 July 2012 | 22,881 | 41,746 | 64,627 |
| | | | |
| Deferred tax assets | | | |
| Provisions | - | 363,566 | 363,566 |
| Balance at 31 July 2011 | - | 363,566 | 363,566 |
| | | | |
| Provisions | 363,566 | (199,741) | 163,825 |
| Tax losses | - | 259,341 | 259,341 |
| Balance at 31 July 2012 | 363,566 | 59,600 | 423,166 |

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

- temporary differences \$nil (2011: \$157,244)
- tax losses: operating losses \$1,553,095 (2011: \$2,267,560)

Note 19 Provisions

| | Consolidated Group | |
|--|---------------------------|----------------|
| | 2012 \$ | 2011 \$ |
| CURRENT | | |
| Short-term Employee Benefits (Current portion of Long Service Leave) | | |
| Opening balance at 1 August 2011 | 7,246 | 7,246 |
| Additional provisions and reclassification | 92,176 | - |
| Balance at 31 July 2012 | 99,422 | 7,246 |
| | | |
| NON CURRENT | | |
| Long-term Employee Benefits (Long Service Leave) | | |
| Opening balance at 1 August 2011 | 235,597 | 201,093 |
| Additional provisions and reclassification | (58,402) | 34,504 |
| Balance at 31 July 2012 | 177,195 | 235,597 |
| | | |
| Analysis of Total Provisions | | |
| Current | 99,422 | 7,246 |
| Non-current | 177,195 | 235,597 |
| | 276,617 | 242,843 |

Provision for Long-term Employee Benefits

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

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Note 20 Issued Capital

| | Consolidated Group | |
|--|---------------------------|-------------|
| | 2012 | 2011 |
| | \$ | \$ |
| 457,622,635 (2011: 457,622,635) fully paid ordinary shares | 16,102,935 | 16,102,935 |
| | 16,102,935 | 16,102,935 |

(a) Ordinary Shares

| | No. | No. |
|--|--------------------|-------------|
| At the beginning of the reporting period | 457,622,635 | 239,859,825 |
| Shares issued during the year | | |
| — 6/08/2010 | - | 217,762,810 |
| At the end of the reporting period | 457,622,635 | 457,622,635 |

On 06/08/10, the company issued 217,762,810 ordinary shares to complete the acquisition of Heritage Brands (Australia) Pty Ltd.

(b) Options

- (i) For information relating to the Heritage Brands Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 25: Share-based Payments.
- (ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 25: Share-based Payments.
- (iii) There are no issued options as at 31 July 2012.

(c) Capital Management

Management controls the capital of the Group 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 debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's gearing ratio remains below 100%. The gearing ratios for the year ended 31 July 2012 and 31 July 2011 are as follows:

| | | Consolidated Group | |
|---|-------------|---------------------------|-------------|
| | Note | 2012 | 2011 |
| | | \$ | \$ |
| Total borrowings (excludes provisions and deferred tax liabilities) | 16, 17 | 10,717,793 | 9,873,506 |
| Less cash and cash equivalents | 9 | (273,570) | (158,533) |
| Net debt | | 10,444,223 | 9,714,973 |
| Total equity | | 5,892,201 | 4,632,698 |
| Total capital | | 16,336,424 | 14,347,671 |
| Gearing ratio | | 64% | 68% |

Note 21 Capital and Leasing Commitments

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for but not recognised in the financial statements

Payable — minimum lease payments

| | | | |
|---------------------------------|--|----------------|---------|
| — not later than 12 months | | 422,249 | 363,621 |
| — between 12 months and 5 years | | 268,799 | - |
| | | 691,048 | 363,621 |

The property lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 3-4% per annum. On 15 April 2012, the Group has exercised its option to renew the lease for another two years.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012**

Note 22 Contingent Liabilities and Contingent Assets

Contingent Liabilities

As at balance date, the Group had no contingent assets and contingent liabilities.

Note 23 Operating Segments

General Information

Identification of reportable segments

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

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

Basis of accounting for purposes of reporting by operating segments

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

Entity-wide disclosures

(i) **Revenue by geographical region**

Revenue attributable to external customers is disclosed below are mainly generated in Australia.

(ii) **Non-current assets by geographical region**

All non-current assets are located in Australia.

(iii) **Major customers**

The Group has a number of customers to whom it provides products. The Group supplies 8 external customers which accounts for 78% of external revenue (2011: 8 external customers - 76%).

Note 24 Cash Flow Information

| | Consolidated Group | |
|---|---------------------------|---------------------------|
| | 2012 | 2011 |
| | \$ | \$ |
| (a) Reconciliation of Cash Flow from Operations with Profit after Income Tax | | |
| Profit after income tax | 1,259,503 | (408,381) |
| Non-cash flows in profit after income tax: | | |
| Depreciation | 481,794 | 665,349 |
| Write down of inventories | 42,683 | 8,421 |
| Net (gain)/loss on disposal of property, plant and equipment | 1,526 | 44,068 |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: | | |
| (Increase)/decrease in trade and other receivables | (743,957) | 1,126,530 |
| (Increase)/decrease in prepayments | (62,596) | 88,145 |
| (Increase)/decrease in inventories | 798,081 | (1,408,148) |
| Increase/(decrease) in trade payables and accruals | 517,444 | (3,319,070) |
| Increase/(decrease) in provisions | 33,774 | 34,504 |
| Net cash provided by/(used in) operating activities | <u>2,328,252</u> | <u>(3,168,582)</u> |

(b) Non-cash Financing and Investing Activities

(i) In FY 2011-2012, the Group acquired new brands with an aggregate value of \$2,000,000. \$1 million of which is payable after one year of acquisition. Accordingly, only the paid portion has been reflected in the statement of cash flows. In addition, the Group has agreed to purchase existing inventories of these new brands at acquisition date. As at 31 July 2012, the Group had paid \$359,580 for inventories.

(ii) In FY 2010-2011, the Group acquired 100% of Heritage Brands (Australia) Pty Ltd for 217,762,810 ordinary shares. Accordingly, only the cash and cash equivalents acquired on the acquisition is presented in the 2011 statement of cash flows.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012**

Note 25 Share-based Payments

- (i) On 01 December 2006, 1,750,000 share options were granted to directors to take up ordinary shares at an exercise price of 25 cents each. On 28 October 2009, the directors resolved to cancel 1,500,000 options previously issued to directors as share based payments. The remaining options were expired on or before 31 July 2012. The options hold no voting rights and are not transferable.
- (ii) A summary of the movements of all company options issued is as follows:

| | Consolidated Group Number | Weighted average exercise price |
|---|--------------------------------------|--|
| Options outstanding as at 31 July 2010 | 250,000 | |
| Options outstanding as at 31 July 2011 | 250,000 | |
| Expired during the year | (250,000) | 25cents |
| Options outstanding as at 31 July 2012 | - | |
| Options exercisable as at 31 July 2012: | - | |
| Options exercisable as at 31 July 2011: | 250,000 | |

Included under employee benefits expense in the statement of comprehensive income is \$nil which relates to equity settled share based payment transactions (2011: nil)

Note 26 Events After the Reporting Period

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect the operations of the Company in future financial years, the results of those operations, or the state of affairs of the Company in future financial years.

Note 27 Related Party Transactions

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

i. Key Management Personnel:

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

For details of disclosures relating to key management personnel, refer to Note 6: Interests of Key Management Personnel Compensation.

ii. Other Related Parties

1. Messrs Cox, Goodey, Mason and McCartney are directors of Oswin Laboratories Pty Ltd and either directly or indirectly own shares in that Company which supplies products to the Group for sale and distribution on commercial terms determined on an arm's length basis.

2. Messrs Cox and Goodey are directors of Brands RMJ Pty Ltd and either directly or indirectly own shares in that Company which supplies products to the Group for sale and distribution on commercial terms determined on an arm's length basis.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012**

(b) Transactions with related parties:

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

The following transactions occurred with related parties:

| | Consolidated Group | |
|--|---------------------------|------------------|
| | 2012 | 2011 |
| | \$ | \$ |
| i. Other Related Parties | | |
| Loans received | | |
| Cash loan from major shareholder - Maximize Equity Pty Ltd (MEPL) | - | 949,431 |
| Cash loan from major shareholder - Soul Private Equity Ltd (SPEL) | - | 1,016,282 |
| Cash loan from major shareholder - Rawlo International Inc | - | 1,538,000 |
| Cash loan from major shareholder - Stephen Mason | 130,000 | 220,000 |
| Cash loan from major shareholder - Steven O'Neill | - | 103,122 |
| Cash loan from major shareholder - Chris McGibbon | - | 7,000 |
| Cash loan from major shareholder - PJT Holdings Pty Ltd | - | 100,497 |
| Cash loan from major shareholder - S Goodey Pty Ltd | - | 103,917 |
| Cash loan from major shareholder - JKL Developments Pty Ltd | - | 100,497 |
| | 130,000 | 4,138,746 |
| <hr/> | | |
| Interest paid/payable on cash loan provided by Maximize Equity Pty Ltd (MEPL) | 95,203 | 64,449 |
| Interest paid/payable on cash loan provided by Soul Private Equity Ltd (SPEL) | 101,907 | 68,173 |
| Interest paid/payable on cash loan provided by Rawlo International Inc | 154,221 | 129,131 |
| Interest paid/payable on cash loan provided by Stephen Mason | 32,048 | 14,482 |
| Interest paid/payable on cash loan provided by Steven O'Neill | 10,340 | 4,794 |
| Interest paid/payable on cash loan provided by Chris McGibbon | 702 | 666 |
| Interest paid/payable on cash loan provided by PJT Holdings Pty Ltd | 10,077 | 4,601 |
| Interest paid/payable on cash loan provided by S Goodey Pty Ltd | 10,420 | 4,732 |
| Interest paid/payable on cash loan provided by JKL Developments Pty Ltd | 10,077 | 4,601 |
| | 424,996 | 295,629 |
| <hr/> | | |
| Other income and expenses | | |
| Fees / salaries (inclusive of all benefits & superannuation) paid to directors | 35,000 | 211,845 |
| Management Fees paid/ payable | - | 66,434 |
| Fees paid/ payable to a director/shareholder related entity for shared services | 528,364 | 398,000 |
| Fees received/ receivable from a director/shareholder related entity for shared services | 99,676 | 168,689 |

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012**

Note 28 Financial Risk Management

The Group's financial instruments consist mainly of cash and cash equivalents, trade and other receivables, trade and other payables, and borrowings.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

| | Note | Consolidated Group | |
|---|------|--------------------|------------------|
| | | 2012 | 2011 |
| | | \$ | \$ |
| Financial Assets | | | |
| Cash and cash equivalents | 9 | 273,570 | 158,533 |
| Loans and receivables | 10c | 3,715,090 | 2,988,656 |
| Total Financial Assets | | 3,988,660 | 3,147,189 |
| Financial Liabilities | | | |
| Financial liabilities at amortised cost | | | |
| — Trade and other payables | 16 | 4,923,185 | 3,398,085 |
| — Borrowings | 17 | 5,550,365 | 6,227,014 |
| Total Financial Liabilities | | 10,473,550 | 9,625,099 |

Financial Risk Management Policies

The Board of Directors (the Board) is responsible for, amongst other issues, monitoring and managing financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk.

The Board's overall risk management strategy seeks to assist the Consolidated Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating or in entities that the Board has otherwise cleared as being financially sound.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period, excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

The Group has significant concentration of credit risk with large retailer groups. On a geographic basis, the Group has significant credit risk exposures to Australia given the substantial operations in those regions. Details with respect to credit risk of Trade and Other Receivables is provided in Note 10.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 10.

Credit risk related to balances with banks and other financial institutions is managed by the Board of Directors. Such policy requires that surplus funds are only invested with counterparties with a Standard and Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings.

| | Note | Consolidated Group | |
|---------------------------|------|--------------------|----------------|
| | | 2012 | 2011 |
| | | \$ | \$ |
| Cash and cash equivalents | | | |
| - AA Rated | 9 | 273,570 | 158,533 |
| | | 273,570 | 158,533 |

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012**

b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources - mainly shareholders and invoice financiers;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis

| | Within 1 Year | | 1 to 5 years | | Over 5 years | | Total | |
|--|---------------|-----------|--------------|-----------|--------------|------|------------|------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Consolidated Group | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial liabilities due for payment | | | | | | | | |
| Trade and other payables | 5,167,428 | 3,653,733 | - | - | - | - | 5,167,428 | 3,653,733 |
| Borrowings-principal | 1,281,619 | 2,088,268 | 4,268,746 | 4,138,746 | - | - | 5,550,365 | 6,227,014 |
| Borrowings-interest | 153,794 | 250,592 | 426,875 | 413,875 | - | - | 580,669 | 664,467 |
| Total contractual outflows | 6,602,841 | 5,992,593 | 4,695,621 | 4,552,621 | - | - | 11,298,462 | 10,545,214 |

| | Within 1 Year | | 1 to 5 years | | Over 5 years | | Total | |
|---|---------------|-----------|--------------|------|--------------|------|-----------|-----------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Consolidated Group | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Financial Assets - cash flows realisable | | | | | | | | |
| Cash and cash equivalents | 273,570 | 158,533 | - | - | - | - | 273,570 | 158,533 |
| Trade and other receivables | 3,715,090 | 2,988,656 | - | - | - | - | 3,715,090 | 2,988,656 |
| Total anticipated inflows | 3,988,660 | 3,147,189 | - | - | - | - | 3,988,660 | 3,147,189 |

| | | | | | | | | |
|---|-------------|-------------|-------------|-------------|---|---|-------------|-------------|
| Net (outflow) / inflow on financial instruments | (2,614,181) | (2,845,404) | (4,695,621) | (4,552,621) | - | - | (7,309,802) | (7,398,025) |
|---|-------------|-------------|-------------|-------------|---|---|-------------|-------------|

c. Market Risk

i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. The financial instruments which primarily expose the Group to interest rate risk are borrowings (which are currently fixed) and cash and cash equivalents.

Interest rate risk is managed using only fixed rate debt. At 31 July 2012 100% of Group debt is fixed.

Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012**

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments, which are carried at amortised cost (ie term receivables, held-to-maturity assets, loan liabilities), are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

| | Note | 2012 | | 2011 | |
|------------------------------------|------|-----------------------|-------------------|-----------------------|------------------|
| | | Carrying Amount \$ | Fair Value \$ | Carrying Amount \$ | Fair Value \$ |
| Consolidated Group | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | (i) | 273,570 | 273,570 | 158,533 | 158,533 |
| Trade and other receivables | (i) | 3,715,090 | 3,715,090 | 2,988,656 | 2,988,656 |
| Total financial assets | | 3,988,660 | 3,988,660 | 3,147,189 | 3,147,189 |
| Financial liabilities | | | | | |
| Trade and other payables | (i) | 4,923,185 | 4,923,185 | 3,398,085 | 3,398,085 |
| Borrowings | (ii) | 5,550,365 | 5,550,365 | 6,227,014 | 6,227,014 |
| Total financial liabilities | | 10,473,550 | 10,473,550 | 9,625,099 | 9,625,099 |

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value. Trade and other payables excludes amounts provided for annual leave, which is outside the scope of AASB 139.
- (ii) Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates. The fair values of fixed rate borrowings will differ to the carrying amounts.

Note 29 Company Details

The registered office of the company is:

Heritage Brands Limited
30 Bando Road
Springvale
VIC 3171

The principal places of business are:

Heritage Brands Limited
30 Bando Road
Springvale
VIC 3171

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Heritage Brands Limited, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 9 to 35, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 31 July 2012 and of the performance for the year ended on that date of the Consolidated Group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
3. the directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

Director


FAIRFULL David John

Dated this 4th day of October 2012



**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
HERITAGE BRANDS LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Heritage Brands Limited which comprises the consolidated statement of financial position as at 31 July 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Heritage Brands Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.



**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
HERITAGE BRANDS LIMITED**

Auditor's Opinion

In our opinion:

- a. the financial report of Heritage Brands Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 31 July 2012 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

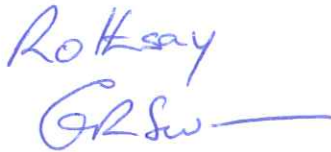
Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 July 2012. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Heritage Brands Limited for the year ended 31 July 2012, complies with section 300A of the Corporations Act 2001.

Name of Firm: Rothsay Chartered Accountants

Handwritten signature in blue ink, appearing to read 'Rothsay' followed by a stylized signature 'G.S.' with a horizontal line extending to the right.

Name of Partner: Graham Swan

Address: Level 1, 12 O'Connell Street, SYDNEY NSW 2000

Dated this 4th day of October 2012

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

The following information is current as at 31 July 2012:

1. Shareholding

a. Distribution of Shareholders

| Category (size of holding) | Number | |
|----------------------------|------------|------------|
| | Ordinary | Redeemable |
| 1 – 1,000 | - | - |
| 1,001 – 5,000 | 4 | - |
| 5,001 – 10,000 | 90 | - |
| 10,001 – 100,000 | 124 | - |
| 100,001 – and over | 47 | - |
| | <u>265</u> | <u>-</u> |

b. The number of shareholdings held in less than marketable parcels is nil.

c. The names of the substantial shareholders listed in the holding company's register are:

| Shareholder | Number | |
|------------------------------|-------------|------------|
| | Ordinary | Preference |
| Souls Private Equity Limited | 114,962,106 | - |
| Maximize Equity Pty Ltd | 91,431,644 | - |
| Rawlo International Pty Ltd | 80,671,614 | - |
| Mr Stephen Mason | 63,895,060 | - |

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. 20 Largest Shareholders — Ordinary Shares

| Name | Number of Ordinary | % Held |
|---------------------------------|------------------------|----------------------------|
| | Fully Paid Shares Held | of Issued Ordinary Capital |
| 1. Souls Private Equity Limited | 114,962,106 | 25.1% |
| 2. Maximize Equity Pty Ltd | 91,431,644 | 20.0% |
| 3. Rawlo International Pty Ltd | 80,671,614 | 17.6% |
| 4. Mr Stephen Mason | 63,895,060 | 14.0% |
| 5. JKL Developments Pty Limited | 18,299,034 | 4.0% |
| 6. S Goodey Pty Ltd | 18,299,034 | 4.0% |
| 7. PTJ Holdings Pty Limited | 18,299,034 | 4.0% |
| 8. Mr Steven Andrew O'Neill | 18,299,034 | 4.0% |
| 9. Kistani Holdings Pty Limited | 11,369,060 | 2.5% |
| 10. Mr Christopher Mc Gibbon & | 3,070,000 | 0.7% |
| 11. Avenue Investments (Aust) | 1,275,000 | 0.3% |
| 12. STYLZ Franchising Pty Ltd | 1,200,000 | 0.3% |
| 13. Hair Fx Australia Pty Ltd | 723,405 | 0.2% |
| 14. D J Fairfull Pty Ltd | 620,000 | 0.1% |
| 15. Herway Pty Ltd | 548,106 | 0.1% |
| 16. Cordony & Co Pty Ltd | 548,106 | 0.1% |
| 17. Cordony Salons Pty Ltd | 548,106 | 0.1% |
| 18. Chris Boffa Pty Ltd | 548,106 | 0.1% |
| 19. Frank Boffa Pty Limited | 548,106 | 0.1% |
| 20. Murang Pty Ltd | 496,000 | 0.1% |
| | <u>445,650,555</u> | <u>97.4%</u> |

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES**

2. The name of the company secretary is Christopher William McGibbon.
3. The address of the principal registered office in Australia is 30 Bando Road, Springvale, VIC 3171. Telephone 03 9574 2100.
4. 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
5. **Stock Exchange Listing**
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the National Stock Exchange Limited.
6. **Unquoted Securities**
There are no unquoted securities.