

# **Heritage Brands Limited and Controlled Entities**

**ABN 91 081 149 635**

**Annual Report**

**For the Year Ended 31 July 2015**

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**For the Year Ended 31 July 2015**

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## Chairman's Report For the Year Ended 31 July 2015

Dear Shareholder,

The Board of Directors and the Management team are pleased to advise that Heritage Brands Limited (HBL) have delivered a significantly improved profit performance and ahead of expectation for the year ending 31st July 2015.

	2015 \$'000	2014 \$'000	Variance %
<b>Gross Sales Revenue</b>	37,617	35,606	+6%
<b>EBITDA</b>	2,623	1,124	+133%
<b>Earnings After Tax</b>	1,470	28	+5,150%

The above results are very pleasing especially in light of the continued increased pressure from major retail customers to increase promotional allowances and discounted prices. Strategies implemented by HBL across our portfolio in response to these ongoing pressures are starting to gain momentum and ensure the business remains on a sustainable profit growth path.

HBL competes in the Health, Beauty and Wellbeing market, which is one of the largest FMCG categories in Australia and internationally. We are an entrepreneurial company that enhances the lives of consumers with Australian assurance of quality, value and innovation. In this regard we are passionate about our Iconic Australian Brands and welcome Le Tan to the HBL family. Le Tan is synonymous with Suncare in Australia, a household name and market leader in its category. A "Le Tan in a can" is sold every 2 minutes somewhere in Australia. The 2015 improved financial performance does not include the recent acquisition of Le Tan as this was only completed on the 31st July 2015.

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

As at today's date, Heritage has continued the good results experienced in the last financial year and our sales for August 2015 were ahead of last year and our EBITDA was ahead of budget and last year. Subject to no unforeseen circumstances, senior management are forecasting a substantially improved EBITDA for 2015/16 financial year (Including a full year of Le Tan financials).



David Fairfull  
Chairman

25th September 2015



Con Gendis  
Managing Director

**Heritage Brands Limited and Controlled Entities**  
**ABN 91 081 149 635**  
**Corporate Governance Statement**  
**31 July 2015**

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

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

### **Role of the Board and Management**

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

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

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

### **Board size and composition**

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

### **Role of Chairman**

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

### **Board meetings**

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

### **Access to information and advice**

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

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### **Committees**

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

- Audit Committee; and
- Remuneration Committee

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

### **Risk Management**

#### **Approach to risk management**

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

#### **Risk management roles and responsibilities**

The Board is responsible for approving and reviewing the Company's risk management strategy and policy. The CEO is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

### **Financial reporting**

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

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

### **Internal audit**

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

### **Conflict of interest**

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

### **Code of conduct**

The Company is in the process of developing a Code of Conduct which deals with, amongst other areas, conflict of interest, personal gains and gifts, confidentiality, compliance with the law and policies and the work environment. Once adopted, all Directors and employees will be bound by the Code of Conduct.

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

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**Trading in Company securities**

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

**Communication with shareholders**

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

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

## **Directors' Report**

**31 July 2015**

The directors present their report, together with the financial statements of the Group, being Heritage Brands Limited (the Company) and its controlled entities, for the financial year ended 31 July 2015.

### **1. General information**

#### **Information on directors**

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

FAIRFULL David John	Non-Executive Chairman
KROK Maxim	Non-Executive Director
BEINART Steven	Non-Executive Director, resigned 31 October 2014
GOODEY Stephen Donald Alfred	Managing Director, resigned 31 October 2014
GENDIS Constantinos	Managing Director, appointed on 10 November 2014
MASON Stephen Leslie	Non-Executive Director
McCARTNEY William Thomson	Non-Executive Director, resigned 31 October 2014
COX Peter Henry Townsend	Non-Executive Director
SMITH Brent Charles Albert	Non-Executive Director, resigned 31 October 2014

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

#### **Principal activities and significant changes in nature of activities**

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

On the 31<sup>st</sup> July 2015, Heritage Brands acquired 100% of the shares in Oswin Laboratories Pty Ltd, which owns the Le Tan Trademark. Le Tan is the leading Tanning brand in Australia.

## **Directors' Report**

**31 July 2015**

### **2. Operating results and review of operations for the year**

#### **Operating results**

Despite a continuing difficult retail environment, Heritage Brands Limited has delivered a profit for the year ended 31 July 2015. Sales are up on comparative basis by 6.59% on the previous year, EBT is up from \$27,885 last year to \$1,469,876 for the current year and this is after non-recurring items relating to legal and acquisition costs of \$206,863.

Major brands have all performed well and Aromatherapy and Australis have outperformed the market.

The improved profit compared to last year is due to increased sales, while holding margin and expenses.

#### **Review of operations**

Revenue for the year was \$32,362,657 (2014: \$30,361,515). Profit after tax for the year was \$1,469,876 (2014: \$27,885) (refer to Note 3).

The Group achieved a profit in 2015 despite the depressed retail markets, with revenue up 6.59% on last year. EBITDA was up by 133% compared to the previous financial year due to increased sales and resultant margin.

Assets have been managed in line with the performance of the business and key indicators such as stock cover, debtor days and DIFOT are in line with expectations.

### **3. Financial review**

#### **Financial position**

The net assets of the Group have increased by \$11,282,430 from \$6,711,335 at 31 July 2014 to \$17,993,765 at 31 July 2015. This increase is due to a Capital Raising to acquire the Le Tan brand and an increase in profit earned and retained by the Group.

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

### **4. Summary of Performance**

		2011	2012	2013	2014	2015
Gross Revenue	\$'000	29,146	30,857	33,800	35,606	<b>37,617</b>
Trading Terms	\$'000	4,654	4,176	4,514	5,572	<b>5,878</b>
Net Revenue	\$'000	24,492	26,681	29,286	30,083	<b>31,739</b>
EBITDA	\$'000	1,445	2,503	1,913	1,124	<b>2,623</b>
Net profit before tax	\$'000	(408)	1260	791	28	<b>1,470</b>
Total assets	\$'000	14,754	16,909	17,366	19,703	<b>32,227</b>
Total liabilities	\$'000	10,121	11,017	10,682	12,992	<b>14,233</b>
Shareholders' funds	\$'000	4,632	5,892	6,683	6,711	<b>17,993</b>
Earnings per share	Cents	(0.09)	0.28	0.17	0.01	<b>0.32</b>
Dividend per share	Cents	-	-	-	-	-
Net tangible assets per share	Cents	2.0	2.0	2.1	2.6	<b>0.8</b>
Price earnings ratio*	x	(24.65)	7.99	12.72	246.17	<b>6.2</b>

\*The shares of the Company were last traded at 2 cents for the year ended 31 July 2015.

## **Directors' Report**

**31 July 2015**

### **5. Other items**

#### **Significant changes in state of affairs**

There have been no significant changes in the state of affairs of entities in the Group during the year other than the repayment of Shareholders debt, the completion of a rights issue and the acquisition of the Le Tan brand via the acquisition of Oswin Laboratories Pty Ltd on the 31<sup>st</sup> July 2015.

#### **Dividends paid or recommended**

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

#### **Events after the reporting date**

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

#### **Future developments and results**

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

#### **Environmental issues**

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

#### **Company secretary**

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

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

## Directors' Report

31 July 2015

### Meetings of directors

During the financial year, 11 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
FAIRFULL David John	11	11	-	-	-	-
KROK Maxim	11	10	2	2	1	1
BEINART Steven	2	2	-	-	1	1
GOODEY Stephen Donald Alfred	1	1	-	-	-	-
MASON Stephen Leslie	11	9	3	3	-	-
McCARTNEY William Thomson	2	1	-	-	1	1
COX Peter Henry Townsend	11	9	1	1	-	-
SMITH Brent Charles Albert	2	2	2	2	-	-
GENDIS Constantinos	10	10				

### Indemnification and insurance of officers and auditors

The Company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of director or company secretary of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The premiums paid amounted to \$13,391 (2014: \$13,682).

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

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

### Options

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 granted during or since the end of the reporting period.

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

Heritage Brands Limited executed a 2.9358 for 1 non-renounceable rights issue on 30<sup>th</sup> July 2015. The Company issued 1,343,488,452 shares as a result.

## Directors' Report

31 July 2015

### Non-audit services

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

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

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 31 July 2015:

	2015	2014
	\$	\$
Taxation services (excludes GST)	5,460	5,460
	<u>5,460</u>	<u>5,460</u>

### Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 31 July 2015 has been received and can be found on page 13 of the financial report.

### Remuneration report (audited)

#### Remuneration policy

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

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

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

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

## **Directors' Report**

**31 July 2015**

### **Remuneration report (audited) continued**

relation to approving incentives, bonuses and options, and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

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

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

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting, the current maximum is \$ 56,000 which was approved at the 2012 AGM.

### **Relationship between remuneration policy and company performance**

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

### **Performance conditions linked to remuneration**

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

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

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

## Directors' Report

31 July 2015

### Remuneration report (audited) continued

#### Service Agreements

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

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

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

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

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

2014	Short term		Post	\$
	Cash salary fees	Bonus	employment, pension and superannuation	
Directors	\$	\$	\$	\$
FAIRFULL David John	10,000	-	-	10,000
KROK Maxim	11,000	-	-	11,000
BEINART Steven	7,000	-	-	7,000
GOODEY Stephen Donald Alfred	326,059	-	24,819	350,878
MASON Stephen Leslie	9,000	-	-	9,000
McCARTNEY William Thomson	7,000	-	-	7,000
COX Peter Henry Townsend	5,000	-	-	5,000
SMITH Brent Charles Albert	7,000	-	-	7,000
<b>KMP</b>				
McGIBBON Christopher William	248,054	-	22,997	271,051
	<b>630,113</b>	<b>-</b>	<b>47,816</b>	<b>677,929</b>

**Directors' Report**  
**31 July 2015**

**Remuneration report (audited) continued**

**Securities received that are not performance related**

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

**Cash performance-related bonuses**

No director or key management personnel received cash bonuses during the year.

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

The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

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



Director: .....  
FAIRFULL David John

Dated : 25<sup>th</sup> September 2015

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

As lead auditor of Heritage Brands Limited for the year ended 31 July 2015, I declare that, to the best of my knowledge and belief, there have been:

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

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



**Frank Vrachas**  
Partner

**Rothsay Chartered Accountants**

Sydney, 25 September 2015

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 July 2015

	Note	2015 \$	2014 \$
Revenue	3	32,362,657	30,361,515
Other income	3	23,595	39,845
Changes in inventories of finished goods	4	(18,521,482)	(17,658,493)
Employee benefits expense		(5,334,140)	(5,338,035)
Advertising and promotion		(3,005,939)	(3,941,216)
Freight and cartage		(165,097)	(219,201)
Occupancy expenses		(426,741)	(426,741)
Depreciation and amortisation expense		(231,077)	(238,715)
Finance costs	4	(922,209)	(856,581)
Other expenses	4	(2,309,691)	(1,694,493)
<b>Profit before income tax</b>		<b>1,469,876</b>	27,885
Income tax expense	5	-	-
<b>Profit for the year</b>		<b>1,469,876</b>	27,885
Other comprehensive income for the year, net of income tax		-	-
<b>Total comprehensive income for the year</b>		<b>1,469,876</b>	27,885
Profit attributable to:			
Members of the parent entity		1,469,876	27,885
		<b>1,469,876</b>	27,885
Total comprehensive income attributable to:			
Members of the parent entity		1,469,876	27,885
		<b>1,469,876</b>	27,885
<b>Earnings per share</b>			
Basic and diluted earnings per share (cents)	8	0.32	0.01

## Consolidated Statement of Financial Position

As at 31 July 2015

	Note	2015 \$	2014 \$
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	9	570,487	197,384
Trade and other receivables	10	5,566,300	5,084,696
Inventories	11	7,857,593	6,430,488
TOTAL CURRENT ASSETS		<u>13,994,380</u>	<u>11,712,568</u>
NON-CURRENT ASSETS			
Property, plant and equipment	13	620,317	385,826
Deferred tax assets	17	359,006	359,006
Intangible assets	14	17,253,136	7,245,472
TOTAL NON-CURRENT ASSETS		<u>18,232,459</u>	<u>7,990,304</u>
TOTAL ASSETS		<u>32,226,839</u>	<u>19,702,872</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	15	7,400,398	4,615,861
Borrowings	16	6,269,651	7,768,901
Employee benefits	18	331,489	377,250
TOTAL CURRENT LIABILITIES		<u>14,001,538</u>	<u>12,762,012</u>
NON-CURRENT LIABILITIES			
Employee benefits	18	231,536	229,525
TOTAL NON-CURRENT LIABILITIES		<u>231,536</u>	<u>229,525</u>
TOTAL LIABILITIES		<u>14,233,074</u>	<u>12,991,537</u>
NET ASSETS		<u>17,993,765</u>	<u>6,711,335</u>
<b>EQUITY</b>			
Issued capital	19	25,915,489	16,102,935
Retained Earning/profit		<u>(7,921,724)</u>	<u>(9,391,600)</u>
TOTAL EQUITY		<u>17,993,765</u>	<u>6,711,335</u>

The accompanying notes form part of these financial statements.

## Consolidated Statement of Changes in Equity

For the Year Ended 31 July 2015

2015

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

2014

	Note	Ordinary Shares \$	Retained Earnings \$	Total \$
<b>Balance at 1 August 2013</b>		16,102,935	(9,419,485)	6,683,450
Profit for the year		-	27,885	27,885
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	27,885	27,885
Transactions with owners in their capacity as owners		-	-	-
<b>Balance at 31 July 2014</b>		<u>16,102,935</u>	<u>(9,391,600)</u>	<u>6,711,335</u>

**Statement of Cash Flows**  
**For the Year Ended 31 July 2015**

	2015	2014
Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	32,191,108	29,768,720
Payments to suppliers and employees	(28,730,051)	(29,410,669)
Interest received	3 4,183	6,910
Finance costs paid	(922,209)	(856,581)
Net cash provided by (used in) operating activities	23(a) <u>2,536,031</u>	<u>(491,620)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of property, plant and equipment	-	2,057
Payment for intangible assets	(7,663)	-
Purchase of property, plant and equipment	(468,569)	(232,644)
Purchase of business brands and associated inventories	-	(142,207)
Payments to acquire subsidiary, net of cash acquired	12(b) <u>(10,000,000)</u>	-
Net cash used in investing activities	<u>(10,476,232)</u>	<u>(372,794)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issue of shares	19(a) 10,076,163	-
Share issue transaction costs	19(a) (263,609)	-
Proceeds from borrowings	2,769,496	824,302
Repayment of borrowings	(4,268,746)	-
Net cash used in financing activities	<u>8,313,304</u>	<u>824,302</u>
Net increase (decrease) in cash and cash equivalents held	373,103	(40,112)
Cash and cash equivalents at beginning of financial year	<u>197,384</u>	<u>237,496</u>
Cash and cash equivalents at end of financial year	9 <u><u>570,487</u></u>	<u><u>197,384</u></u>

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

This financial report covers the consolidated financial statements and notes of Heritage Brands Limited and Controlled Entities (the 'Group'). Heritage Brands Limited is a for profit company domiciled in Australia. The financial statements were authorised for issue by the Board of Directors on 25th September 2015.

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

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

#### **1 Summary of Significant Accounting Policies**

##### **(a) Basis of Preparation**

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

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

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

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

##### **(b) Going concern**

The Financial Report has been prepared on a going concern basis.

##### **(c) Principles of Consolidation**

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

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

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

##### **Business combinations**

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

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

Goodwill or a gain on bargain purchase may arise on the acquisition date. This is calculated by comparing the

## Notes to the Consolidated Financial Statements For the Year Ended 31 July 2015

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

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

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

### (d) Comparative Amounts

Comparatives are consistent with prior years, unless otherwise stated.

### (e) Inventories

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

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

### (f) Property, Plant and Equipment

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

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

#### Land and buildings

Land and buildings are measured using the cost model.

#### Plant and equipment

Plant and equipment are measured using the cost model.

#### Depreciation

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

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

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

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

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

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

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

#### **(g) Financial instruments**

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

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

#### *Financial Assets*

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

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

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

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

#### **Loans and receivables**

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

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

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

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

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

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

For trade receivables, impairment provisions are recorded in a separate allowance account with the loss being recognised in profit or loss. When confirmation has been received that the amount is not collectable, the gross

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

carrying value of the asset is written off against the associated impairment provision.

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

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

#### **Financial assets at fair value through profit or loss**

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

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

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

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

#### **Held-to-maturity investments**

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

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

#### **Available-for-sale financial assets**

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

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

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

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

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

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

Losses recognised in prior period consolidated income statements resulting from the impairment of debt

## Notes to the Consolidated Financial Statements For the Year Ended 31 July 2015

securities are reversed through the income statement, if the subsequent increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

### *Financial liabilities*

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

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

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

### *Impairment of financial assets*

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

#### **Financial assets at amortised cost**

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

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

#### **Available-for-sale financial assets**

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

#### **(h) Impairment of non-financial assets**

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

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

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

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

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

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

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

#### **(i) Intangible Assets**

##### **Goodwill**

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

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

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

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

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

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

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

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

##### **Trademarks**

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

#### **(j) Cash and cash equivalents**

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

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

#### **(k) Employee benefits**

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

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

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

#### **Defined contribution schemes**

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

#### **(l) Provisions**

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

#### **(m) Borrowings**

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

#### **(n) Earnings per share**

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

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

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

#### **(o) Share capital**

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

#### **(p) Income Tax**

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

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

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

Deferred tax is not provided for the following:

- the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

- taxable temporary differences arising on the initial recognition of goodwill; and
- temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

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

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

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

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

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

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

#### **Tax consolidated group**

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

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

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

#### **(q) Leases**

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

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

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

expense for the period.

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

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

#### **(r) Revenue and other income**

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

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

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

##### **Sale of goods**

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

##### **Interest revenue**

Interest is recognised using the effective interest method.

#### **(s) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which it incurs them.

#### **(t) Goods and Services Tax (GST)**

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

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

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

#### **(u) Foreign currency transactions and balances**

##### **Functional and presentation currency**

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

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

#### **Transaction and balances**

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

At the end of the reporting period:

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

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

#### **Group companies**

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

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

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

#### **(v) Critical accounting estimates and judgments**

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

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

#### **Key estimates - impairment of goodwill**

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

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

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

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

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

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

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

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

#### **Key estimates - provision for slow/ obsolete stock**

The provision for slow/ obsolete stock assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence. The Directors believe that provision for slow/ obsolete stock of \$256,284 (2014: \$130,000) is reasonable and that all other inventories are carried at their realisable values as at the end of the financial year.

#### **Key judgments - provision for impairment of receivables**

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

#### **Key judgments - taxes**

##### *Deferred tax assets*

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

#### **Key estimates - provisions**

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

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

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

## Notes to the Consolidated Financial Statements For the Year Ended 31 July 2015

### (w) Adoption of new and revised accounting standards

During the current year, the following standards became mandatory and have been adopted retrospectively by the Group:

- AASB 10 *Consolidated Financial Statements*
- AASB 11 *Joint Arrangements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits*
- AASB 127 *Separate Financial Statements*
- AASB 128 *Investment in Associates and Joint Ventures*
- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]*
- AASB 2012-9 *Amendments to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039*
- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*

The accounting policies have been updated to reflect changes in the recognition and measurement of assets, liabilities, income and expenses and the impact of adoption of these standards is discussed below.

The Group has reviewed its investment in other entities to determine whether any changes were required to the consolidated entity under AASB 10. The composition of the consolidated entity is the same under AASB 10 and therefore there is no change to the reported financial position and performance.

AASB 11 *Joint Arrangements* replaces AASB 131 *Interests in Joint Ventures* and Interpretation 112 *Jointly-Controlled Entities - Non-monetary Contributions by Venturers* as well as consequential amendments to a number of other standards. AASB 11 uses the revised definition of control from AASB 10 and once joint control is determined, then classifies joint arrangements as either joint ventures or joint operations. Joint ventures are accounted for using the equity method, proportionate consolidation is not permitted under AASB 11. Joint operations are accounted for by incorporating the venturer's share of assets, liabilities, income and expenses into the financial statements. There were no changes to the accounting for joint arrangements under AASB 11.

AASB 12 *Disclosure of Interests in Other Entities* includes all disclosures relating to an entity's interest in associates, joint arrangements, subsidiaries and structured entities. On adoption of AASB 12, additional disclosures have been included in the financial statements in relation to investments held.

AASB 13 *Fair Value Measurement* does not change what and when assets or liabilities are recorded at fair value. It provides guidance on how to measure assets and liabilities at fair value, including the concept of highest and best use for non-financial assets. AASB 13 has not changed the fair value measurement basis for any assets or liabilities held at fair value.

AASB 119 *Employee benefits* changes the basis for determining the income or expense relating to defined benefit plans and introduces revised definitions for short-term employee benefits and termination benefits.

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 July 2015**

The Group reviewed the annual leave liability to determine the level of annual leave which is expected to be paid more than 12 months after the end of the reporting period. Whilst this has been considered to be a long-term employee benefits for the purpose of measuring the leave under AASB 119, the effect of discounting was not considered to be material and therefore has not been performed.

In accordance with the transition provisions in the standard, the comparative figures have been restated.

<b>Standard Name</b>	<b>Impact</b>
AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income	The adoption of this standard has not change the reported financial position and performance of the entity, however the presentation of items in other comprehensive income has changed.
AASB 112 Income Taxes	There has been no impact on the reported financial position and performance
AASB 2011-3 Amendments to Australian Accounting Standards - Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments	There has been no impact due the entity not being a government department

**(x) New Accounting Standards and Interpretations**

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

<b>Standard Name</b>	<b>Effective date for entity</b>	<b>Requirements</b>	<b>Impact</b>
AASB 9 Financial Instruments and amending standards AASB 2010-7 / AASB 2012-6	31 July 2016	Changes to the classification and measurement requirements for financial assets and financial liabilities.  New rules relating to derecognition of financial instruments.	The impact of AASB 9 has not yet been determined as the entire standard has not been released.
AASB 1055 - Budgetary Reporting AASB 2013-1 Amendments to AASB 1049 - Relocation of Budgetary Reporting Requirements	31 July 2015	This standard specifies the nature of budgetary disclosures and circumstances for inclusion in the financial statements.	No impact as the entity is not a public sector entity.
AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities [AASB 132]	31 July 2015	This standard adds application guidance to AASB 132 to assist with applying some of the offset criteria of the standard.	There will be no impact to the entity as there are no offsetting arrangements currently in place.

**Notes to the Consolidated Financial Statements**  
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**2 Parent entity**

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

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

*Investments in subsidiaries*

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

*Tax consolidation legislation*

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

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

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

	<b>Parent Entity</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Statement of Financial Position</b>		
Assets		
Current assets	-	-
Non-current assets	<b>16,835,015</b>	7,022,461
Total Assets	<b>16,835,015</b>	7,022,461
Liabilities		
Current liabilities	-	-
Non-current liabilities	-	-
Total Liabilities	-	-
Equity		
Issued capital	<b>25,915,489</b>	16,102,935
Retained earnings	<b>(9,080,474)</b>	(9,080,474)
Total Equity	<b>16,835,015</b>	7,022,461
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total profit for the year	-	-
<b>Total comprehensive income</b>	-	-

**Notes to the Consolidated Financial Statements**  
 For the Year Ended 31 July 2015

**2 Parent entity continued**

**Contingent liabilities**

The parent entity did not have any contingent liabilities as at 31 July 2015 (31 July 2014: None).

**Contractual commitments**

The parent entity did not have any commitments as at 31 July 2015 (31 July 2014: None).

**3 Revenue and Other Income**

**Revenue from continuing operations**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Sales revenue		
- sale of goods	<b>31,738,646</b>	30,083,559
- royalty income	<b>26,399</b>	45,177
<b>Total Sales Revenue</b>	<b>31,765,045</b>	30,128,736
Finance income		
- interest on bank deposits	<b>4,183</b>	6,910
<b>Finance income</b>	<b>4,183</b>	6,910
Other revenue		
- foreign currency gains/(losses)	<b>593,429</b>	225,869
<b>Total Revenue</b>	<b>32,362,657</b>	30,361,515
<b>Other Income</b>		
Income from shared services	<b>23,595</b>	39,845

**4 Result for the Year**

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cost of sales	<b>18,521,482</b>	17,658,493
<b>Finance Costs</b>		
<b>Financial liabilities measured at amortised cost:</b>		
- Shareholders	<b>371,095</b>	391,374
- Other entities	<b>551,114</b>	465,207
<b>Total finance costs</b>	<b>922,209</b>	856,581
<b>Other expenses:</b>		
Superannuation contributions	<b>399,347</b>	399,550
Impairment of receivables:		
- Trade receivables	<b>2,479</b>	9,905
Total impairment of receivables	<b>2,479</b>	9,905
Rental expense on operating leases:		
- Minimum lease payments	<b>426,741</b>	426,741
Loss on disposal of property, plant and equipment	<b>3,001</b>	7,173
Write-down of inventories to net realisable value	<b>10,042</b>	9,232
Non-recurring legal and acquisition costs	<b>206,863</b>	-

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 July 2015**

**5 Income Tax Expense**

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

	2015	2014
	\$	\$
Current tax	429,307	38,916
Deferred tax	-	(467)
Recoupment of prior year tax losses	(429,307)	(38,449)
<b>Total income tax expense</b>	<b>-</b>	<b>-</b>

(b) Reconciliation of income tax to accounting profit:

	2015	2014
	\$	\$
Profit	1,469,876	27,885
Tax	30%	30%
	<b>440,963</b>	<b>8,366</b>
Add:		
Tax effect of:		
- non-deductible depreciation and amortisation	(28)	1,075
- other non-allowable items	(11,628)	29,008
	<b>429,307</b>	<b>38,449</b>
Less:		
Tax effect of:		
- Recoupment of prior year tax losses previously not brought to account	(429,307)	(38,449)
Income tax expense	<b>-</b>	<b>-</b>

**6 Key Management Personnel Disclosures**

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

	2015	2014
	\$	\$
Short-term employee benefits	633,729	630,113
Post-employment benefits	54,288	47,816
	<b>688,017</b>	<b>677,929</b>

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 July 2015.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 July 2015

#### 6 Key Management Personnel Disclosures continued

##### Key management personnel shareholdings

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

	Balance at beginning of year	Other changes during the year	Balance at end of year
	No.	No.	No.
<b>31 July 2015</b>			
<b>Directors</b>			
GOODEY Stephen Donald Alfred	18,299,034	13,855,600	32,154,634
GENDIS Constantinos	-	13,333,333	13,333,333
<b>Other KMP</b>			
McGIBBON Christopher William	3,070,000	933,333	4,003,333
	<b>21,369,034</b>	<b>28,122,266</b>	<b>49,491,300</b>
	Balance at beginning of year	Other changes during the year	Balance at end of year
	No.	No.	No.
<b>31 July 2014</b>			
<b>Directors</b>			
GOODEY Stephen Donald Alfred	18,299,034	-	18,299,034
<b>Other KMP</b>			
McGIBBON Christopher William	3,070,000	-	3,070,000
	<b>21,369,034</b>	<b>-</b>	<b>21,369,034</b>

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

##### Other key management personnel transactions

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

#### 7 Remuneration of Auditors

	2015	2014
	\$	\$
Remuneration of the auditor for:		
- auditing or reviewing the financial report	50,500	28,600
- taxation services provided by related practice of auditor	5,460	5,460
	<b>55,960</b>	<b>34,060</b>

**Notes to the Consolidated Financial Statements**  
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**8 Earnings per Share**

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Profit for the year	<b>1,469,876</b>	27,885
Earnings used to calculate basic EPS from continuing operations	<b>1,469,876</b>	27,885
<b>Earnings used in the calculation of dilutive EPS from continuing operations</b>	<b>1,469,876</b>	27,885

(b) Earnings used to calculate overall earnings per share

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Earnings used to calculate overall earnings per share	<b>1,469,876</b>	27,885
<b>Earnings used in the calculation of dilutive EPS from continuing operations</b>	<b>1,469,876</b>	27,885

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

	<b>2015</b>	<b>2014</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<b>457,622,635</b>	457,622,635
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>457,622,635</b>	457,622,635

**9 Cash and cash equivalents**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	<b>570,487</b>	197,384
	<b>570,487</b>	197,384

**Reconciliation of cash**

Cash and Cash equivalents reported in the statement of cash flows are reconciled to the equivalent items in the statement of financial position as follows:

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	<b>570,487</b>	197,384
<b>Balance as per statement of cash flows</b>	<b>570,487</b>	197,384

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 July 2015**

**10 Trade and other receivables**

	2015	2014
	\$	\$
CURRENT		
Trade receivables	5,993,858	5,339,120
Provision for impairment	(5,403)	(5,967)
Provision for rebates, incentives and discounts	(952,391)	(488,050)
	<u>5,036,064</u>	4,845,103
Prepayments	319,214	223,899
Other receivables	211,022	15,694
	<u>5,566,300</u>	<u>5,084,696</u>
<b>Total current trade and other receivables</b>	<b>5,566,300</b>	<b>5,084,696</b>

**(a) Impairment of receivables**

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

	2015	2014
	\$	\$
Balance at beginning of the year	5,967	3,420
Additional impairment loss recognised	2,478	9,905
Provision used	(3,042)	(7,358)
<b>Balance at end of the year</b>	<b>5,403</b>	<b>5,967</b>

**Credit risk**

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

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

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

**Notes to the Consolidated Financial Statements**  
 For the Year Ended 31 July 2015

**10 Trade and other receivables continued**

	Gross amount \$	Past due and impaired \$	< 30 \$	31-60 \$	> 60 \$	Within initial trade terms \$
<b>2015</b>						
Trade and term receivables	5,993,858	5,403	1,097,483	340,694	227,227	4,323,051
Other receivables	211,022	-	-	-	-	211,022
<b>Total</b>	<b>6,204,880</b>	<b>5,403</b>	<b>1,097,483</b>	<b>340,694</b>	<b>227,227</b>	<b>4,534,073</b>
<b>2014</b>						
Trade and term receivables	5,339,120	5,967	1,195,642	323,270	280,081	3,534,160
Other receivables	15,694	-	-	-	-	15,694
<b>Total</b>	<b>5,354,814</b>	<b>5,967</b>	<b>1,195,642</b>	<b>323,270</b>	<b>280,081</b>	<b>3,549,854</b>

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

The other classes of receivables do not contain impaired assets.

**(b) Collateral held as security**

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

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

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

**11 Inventories**

	2015 \$	2014 \$
CURRENT		
At net realisable value:		
Finished goods	8,113,877	6,560,488
Provision for slow moving/ obsolete stock	(256,284)	(130,000)
	<b>7,857,593</b>	<b>6,430,488</b>

Inventories recognised as expense during the year ended 31 July 2015 and included in cost of sales amounted to \$18,521,482 (2014: \$17,658,493).

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 July 2015**

**12 Controlled Entities**

**(a) Controlled entities**

	Country of Incorporation	Percentage Owned (%)* 2015	Percentage Owned (%)* 2014
<b>Subsidiaries of Heritage Brands Limited:</b>			
Heritage Brands (Australia) Pty Ltd	Australia	<b>100</b>	100
Innoxia Group Pty Ltd	Australia	<b>100</b>	100
Innoxia Holdings Pty Ltd	Australia	<b>100</b>	100
Innoxia Marks Pty Ltd	Australia	<b>100</b>	100
Incolabs Pty Ltd	Australia	<b>100</b>	100
Oswin Laboratories Pty Ltd**	Australia	<b>100</b>	-

\* Percentage of voting power is in proportion to ownership

\*\* Oswin Laboratories Pty Ltd changed its name to Heritage Le Tan Pty Ltd on 10<sup>th</sup> August 2015

**(b) Acquisition of controlled entities**

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

The initial provisional accounting for the acquisition of Oswin Laboratories is disclosed below. The Group has provisionally recognised the fair values of the identifiable assets and liabilities acquired based on the information available at reporting date. The process of valuing separately identifiable intangible assets will be completed as required under Australian Accounting Standards. The intangible assets undergoing this assessment which will be subject to the completion of the acquisition accounting include the Le Tan brand.

The following table shows the assets acquired, liabilities assumed and the purchase consideration at the acquisition date.

**Notes to the Consolidated Financial Statements**  
 For the Year Ended 31 July 2015

(b) Acquisition of controlled entities (continued)

	Acquiree's carrying amount \$	Fair value \$
Purchase consideration:		
- Cash		10,000,000
- Deferred consideration		<u>2,462,627</u>
<b>Total purchase consideration</b>		<b>12,462,627</b>
<b>Assets or liabilities acquired:</b>		
Trade and other receivables	1,853,381	1,853,381
Inventories	1,343,320	1,343,320
Plant and equipment	24,534	24,534
Intangible assets	7,664	7,664
Trade and other payables	(790,053)	(790,053)
Current tax receivable	58,370	58,370
Provisions	(34,589)	<u>(34,589)</u>
<b>Total net identifiable assets acquired and liabilities assumed</b>		<b><u>2,462,627</u></b>
<b>Goodwill</b>		<b><u><u>10,000,000</u></u></b>

Revenue of Oswin Laboratories Pty Limited included in the consolidated revenue of the Group since the acquisition date on 31 July 2015 amounted to \$Nil with a profit of \$Nil.

Had the results of Oswin Laboratories Pty Limited been consolidated from 1 August 2014, revenue of the Group would have been \$45,459,657 and consolidated profit would have been \$3,469,876 for the year ended 31 July 2015. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 August 2014.

Included within Other Expenses in the consolidated statement of profit or loss and other comprehensive income are acquisition related costs totalling \$70,628. The costs include legal and due diligence fees.

The goodwill is attributable to synergies and profitability expected to be achieved from integrating the Company into the Group's existing businesses. None of the goodwill recognised is expected to be deductible for income tax purposes.

**Notes to the Consolidated Financial Statements**  
 For the Year Ended 31 July 2015

**13 Property, plant and equipment**

	2015 \$	2014 \$
Plant and equipment		
At cost	4,605,579	4,325,041
Accumulated depreciation	(3,990,632)	(3,940,468)
<b>Total plant and equipment</b>	<b>614,947</b>	<b>384,573</b>
Leasehold Improvements		
At cost	55,070	49,245
Accumulated depreciation	(49,700)	(47,992)
<b>Total leasehold improvements</b>	<b>5,370</b>	<b>1,253</b>
<b>Total property, plant and equipment</b>	<b>620,317</b>	<b>385,826</b>

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

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

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

<b>Consolidated</b>	<b>Plant and Equipment \$</b>	<b>Leasehold Improvements \$</b>	<b>Total \$</b>
<b>Year ended 31 July 2014</b>			
Balance at the beginning of year	399,556	1,571	401,127
Additions	230,975	1,669	232,644
Disposals	(9,230)	-	(9,230)
Depreciation expense	(236,728)	(1,987)	(238,715)
<b>Balance at the end of the year</b>	<b>384,573</b>	<b>1,253</b>	<b>385,826</b>

**Notes to the Consolidated Financial Statements**  
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**14 Intangible Assets**

	2015	2014
	\$	\$
<b>Goodwill</b>		
Cost	12,596,828	2,596,828
<b>Trademarks</b>		
Cost	4,656,308	4,648,644
<b>Total Intangibles</b>	<u>17,253,136</u>	<u>7,245,472</u>

**(a) Movements in carrying amounts of intangible assets**

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

	Goodwill	Trademarks	Total
	\$	\$	\$
<b>Year ended 31 July 2015</b>			
Balance at the beginning of year	2,596,828	4,648,644	7,245,472
Additions	10,000,000	7,664	10,007,664
<b>Balance at the end of year</b>	<u>12,596,828</u>	<u>4,656,308</u>	<u>17,253,136</u>
<b>Year ended 31 July 2014</b>			
Balance at the beginning of year	2,596,828	4,588,644	7,185,472
Additions	-	60,000	60,000
<b>Balance at the end of year</b>	<u>2,596,828</u>	<u>4,648,644</u>	<u>7,245,472</u>

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

**(b) Impairment disclosures**

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

	2015	2014
	\$	\$
Consumer Products	17,253,136	7,245,472
<b>Total</b>	<u>17,253,136</u>	<u>7,245,472</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 (which does not exceed the long-term growth rate for the industry) on the next year's financial budget and a terminal value multiple. The cash flows are discounted using the yield of a 5-year government bond at the beginning of the budget period adjusted for the specific risks relating to the asset.

**Notes to the Consolidated Financial Statements**  
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**(b) Impairment disclosures (continued)**

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

	Growth Rate		Discount Rate	
	2015	2014	2015	2014
Consumer Products	<b>3.00%</b>	3.00%	<b>20.00%</b>	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.

**Sensitivity to change of assumptions**

If the next year's financial budget used in the value-in-use calculation had been 10% lower than management's estimates at 31 July 2015, the Group would have a recoverable amount in excess of \$14,672,000 against the carrying amount of intangible assets and property, plant and equipment.

If the pre-tax discount rate applied to the cash flow projections of this CGU had been 1% higher than management's estimates (21% instead of 20%), the Group would have a recoverable amount in excess of \$14,853,000 against the carrying amount of intangible assets and property, plant and equipment. In 2013, there were no reasonably possible changes in any of the key assumptions that would have caused the carrying amount of the CGU to exceed its recoverable amount.

**15 Trade and other payables**

	Note	2015 \$	2014 \$
CURRENT			
Unsecured liabilities			
Trade payables		<b>3,166,914</b>	3,899,243
Deferred consideration	12(b)	<b>2,462,627</b>	-
Employee entitlements		<b>169,296</b>	109,445
Sundry payables and accrued expenses		<b>1,601,561</b>	607,173
		<b>7,400,398</b>	4,615,861

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

**Notes to the Consolidated Financial Statements**  
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**16 Borrowings**

	Note	2015 \$	2014 \$
<b>CURRENT</b>			
Unsecured liabilities:			
Insurance refinancing		83,475	85,267
		<u>83,475</u>	<u>85,267</u>
Secured liabilities:			
Bank Facility – Bank of Melbourne (2014: Scottish Pacific)		6,186,176	3,414,888
Payables to major shareholders	24(c)	-	4,268,746
<b>Total current borrowings</b>		<u>6,269,651</u>	<u>7,768,901</u>
<b>Total borrowings</b>		<u>6,269,651</u>	<u>7,768,901</u>

**(a) Bank Facility**

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

	2015 \$	2014 \$
<b>Floating charge:</b>		
- cash and cash equivalents	570,487	197,384
- trade receivables	5,036,064	4,845,103
- inventories	7,857,593	6,430,488
	<u>13,464,144</u>	<u>11,472,975</u>

The collateral over financial assets represents a first fixed and floating charge over financial assets of Heritage Brands (Australia) Pty Ltd and second fixed and floating charge over financial assets of Heritage Brands Limited and Incolabs Pty Ltd. The Bank of Melbourne loans carry a current variable rate of interest at 5.84% per annum, effective 31<sup>st</sup> July 2015 (2014: 9.17%).

**Notes to the Consolidated Financial Statements**  
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17 Tax

**Recognised deferred tax assets and liabilities**

	2015	2014
	\$	\$
Deferred tax assets	<u>359,006</u>	<u>359,006</u>

	Opening Balance	Charged to Income	Closing Balance
	\$	\$	\$
<b>Deferred tax assets</b>			
Provisions	168,522	(4,230)	164,292
Deferred tax assets attributable to tax losses	190,017	4,697	194,714
<b>Balance at 31 July 2014</b>	<u>358,539</u>	467	<u>359,006</u>
Provisions	<b>164,292</b>	-	<b>164,292</b>
Deferred tax assets attributable to tax losses	<b>194,714</b>	-	<b>194,714</b>
<b>Balance at 31 July 2015</b>	<u><b>359,006</b></u>	-	<u><b>359,006</b></u>

(a) **Unrecognised deferred tax assets**

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

	2015	2014
	\$	\$
Tax losses	<b>907,196</b>	1,336,503

Deferred tax assets have not been recognised in respect of these items because it has not been deemed probable that future taxable profit will be available against which the Group can utilise the benefits therein.

**Notes to the Consolidated Financial Statements**  
For the Year Ended 31 July 2015

**18 Employee Benefits**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Long service leave	<b>93,100</b>	125,700
Annual leave	<b>238,389</b>	251,550
	<b>331,489</b>	<b>377,250</b>
NON-CURRENT		
Long service leave	<b>231,536</b>	229,525
	<b>231,536</b>	<b>229,525</b>

**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.

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 July 2015**

**19 Issued Capital**

	2015	2014
	\$	\$
1,801,111,087 (2014: 457,622,635) Ordinary shares	<u>25,915,488</u>	16,102,935
<b>Total</b>	<u><b>25,915,488</b></u>	<u>16,102,935</u>

**(a) Movements in Ordinary shares**

	Number of shares	\$
<b>Opening balance at 1 August 2013 and Closing balance at 31 July 2014</b>	<u>457,622,635</u>	<u>16,102,935</u>
<b>Opening balance at 1 August 2014</b>	<u>457,622,635</u>	<u>16,102,935</u>
Rights issue - see note (ii) below	<u>1,343,499,467</u>	<u>10,076,162</u>
		<u>26,179,097</u>
Less: Transaction costs arising on capital raising		<u>(263,609)</u>
<b>Closing balance at 31 July 2015</b>	<u><b>1,801,111,087</b></u>	<u><b>(25,915,488)</b></u>

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

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

- (ii) Rights issue

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

**(b) Capital Management**

Capital of the Group is managed in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern. The Group's capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

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

	2015	2014
	\$	\$
Total borrowings	6,269,651	7,768,901
Less cash and cash equivalents	<u>(570,487)</u>	<u>(197,384)</u>
Net debt	5,699,164	7,571,517
Total equity	<u>17,993,765</u>	<u>6,711,335</u>
Total capital	<u><b>23,692,929</b></u>	<u>14,282,852</u>
Gearing ratio	<u>24%</u>	<u>53%</u>

## Notes to the Consolidated Financial Statements For the Year Ended 31 July 2015

### 20 Capital and Leasing Commitments

#### (a) Operating Leases

	2015	2014
	\$	\$
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	495,103	412,560
- between one year and five years	1,766,432	64,069
	<u>2,261,535</u>	<u>476,629</u>

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

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

### 21 Contingencies

The Group did not have any contingent liabilities or contingent assets at 31 July 2015 (31 July 2014:None).

### 22 Operating Segments

#### Segment information

##### Identification of reportable segments

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

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

##### Basis of accounting for purposes of reporting by operating segments

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

#### (a) Geographical information

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

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 July 2015

#### 22 Operating Segments continued

##### (b) Major customers

Revenues of approximately \$26,487,511 (2014: \$ 26,136,353) are derived from 10 external customers. These revenues represent 70% of total external revenue (2014: 73%).

#### 23 Cash Flow Information

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

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

	2015	2014
	\$	\$
Profit for the year	1,469,876	27,885
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation	231,077	238,715
- write-off of obsolete stock	10,043	9,232
- net loss on disposal of property, plant and equipment	3,001	7,173
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	(386,290)	(625,730)
- (increase)/decrease in prepayments	(95,315)	(52,517)
- (increase)/decrease in inventories	(1,437,147)	(1,581,009)
- (increase)/decrease in deferred tax receivable	-	(467)
- increase/(decrease) in trade and other payables	2,784,535	1,407,858
- increase/(decrease) in employee benefits	(43,749)	77,240
Cash flow from (used in) operations	<u>2,536,031</u>	<u>(491,620)</u>

#### 24 Related Parties

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

###### (i) Key management personnel:

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

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

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

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 July 2015**

**(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:

	2015	2014
	\$	\$
<b>KMP related parties</b>		
Fees paid/payable to Sales Solution Network, a director/shareholder related entity for shared services	-	2,254
Fees received/receivable from Brands RMJ, a director/shareholder related entity for shared services	27,222	21,309
Fees received/receivable from Oswin, a director/shareholder related entity for shared services	55,596	49,668
	<hr/>	<hr/>
	82,818	73,231
<b>Major shareholders</b>		
Interest paid/payable on cash loan provided by Maximize Equity Pty Ltd	82,224	87,047
Interest paid/payable on cash loan provided by Souls Private Equity Ltd	88,213	93,176
Interest paid/payable on cash loan provided by Rawlo International Pty Ltd	132,119	141,009
Interest paid/payable on cash loan provided by Stephen Mason	31,356	32,089
Interest paid/payable on cash loan provided by Steven O'Neill	9,239	9,455
Interest paid/payable on cash loan provided by Chris McGibbon	628	642
Interest paid/payable on cash loan provided by PJT Holdings Pty Ltd	9,003	9,214
Interest paid/payable on cash loan provided by S Goodey Pty Ltd	9,310	9,527
Interest paid/payable on cash loan provided by JKL Developments Pty Ltd	9,003	9,214
	<hr/>	<hr/>
	371,095	391,373

All shareholder loans were repaid on 31<sup>st</sup> July 2015. The average interest rate on loans during the year was 8.96% (2014: 9.17%).

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

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

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

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

## Notes to the Consolidated Financial Statements For the Year Ended 31 July 2015

(c) **Balance owing to related parties**

	2015	2014
Note	\$	\$
CURRENT		
Amount payable to:		
- Major shareholder (Maximize Equity Pty Ltd)	16(b) -	949,431
- Major shareholder (Souls Private Equity Ltd)	16(b) -	1,016,282
- Major shareholder (Rawlo International Pty Ltd)	16(b) -	1,538,000
- Major shareholder (Others)	16(b) -	765,033
<b>Total</b>	<b>-</b>	<b>4,268,746</b>

### 25 Financial Risk Management

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

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

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

The Group does not speculate in financial assets.

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

#### Specific risks

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

#### Financial instruments used

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

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

## **Notes to the Consolidated Financial Statements**

### **For the Year Ended 31 July 2015**

#### **25 Financial Risk Management continued**

##### **Objectives, policies and processes**

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

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

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

##### **Credit risk**

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

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

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

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

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

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

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

##### **Liquidity risk**

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

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

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

## Notes to the Consolidated Financial Statements For the Year Ended 31 July 2015

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

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

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

	Within 1 year		1 to 5 years		Total	
	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$
Trade and other payables	7,400,398	4,615,861	-	-	7,400,398	4,615,861
Borrowings-principal	6,269,651	7,768,901	-	-	6,269,651	7,768,901
Borrowings-interest	574,927	712,408	-	-	574,927	712,408
<b>Total</b>	<b>14,244,976</b>	<b>13,097,170</b>	<b>-</b>	<b>-</b>	<b>14,244,976</b>	<b>13,097,170</b>

### Market risk

#### (i) Cash flow interest rate sensitivity

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

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

At 31 July 2015, if interest rates had increased by 100 basis points or decreased by 100 basis points from the year end rates with all other variables held constant, post tax profit for the period would have been \$28,240 higher/ \$28,240 lower (2014 changes of +100 bps/ 100 bps: \$77,689 higher/\$77,689 lower), mainly as a result of higher/lower interest income from cash and cash equivalents. Other components of equity would have been \$28,240 lower/\$28,240 higher (2014 – \$77,689 lower/\$77,689 higher) mainly as a result of an increase/decrease in the fair value of borrowings.

### Fair value estimation

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

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

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

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

**Notes to the Consolidated Financial Statements**  
**For the Year Ended 31 July 2015**

**26 Events Occurring After the Reporting Date**

The financial report was authorised for issue on 25th September 2015 by the board of directors.

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

**27 Company Details**

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

Heritage Brands Limited  
30 Bando Road  
Springvale  
VIC 3171

## **Directors' Declaration**

The Directors of the Company declare that:

1. the financial statements and notes for the year ended 31 July 2015 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
  - b. giving a true and fair view of the consolidated group's financial position as at 31 July 2015 and of its performance for the financial year ended on that date; and
2. Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;
3. The Chief Executive Officer and Chief Finance Officer have given the declarations required by Section 295A of the *Corporations Act 2001*;
4. In the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



Director: .....

FAIRFULL David John

Dated : 25<sup>th</sup> September 2015

## 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 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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

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

### Independence

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



## Opinion

In our opinion:

- (a) the financial report of Heritage Brands Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 July 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1 (a).

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 31 July 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Heritage Brands Limited for the year ended 31 July 2015 complies with section 300A of the *Corporations Act 2001*.

## Rothsay Chartered Accountants

**Frank Vrachas**  
Partner

Sydney, 25 September 2015

## Heritage Brands Limited

### Additional Information

**31 July 2015**

#### NSX Additional Information

Additional information required by the NSX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 31<sup>st</sup> July 2015.

#### Substantial shareholders

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

#### Voting rights

##### *Ordinary Shares*

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

#### Distribution of equity security holders

Holding	Ordinary shares	
	Number of shareholders	Number of shares
1-1,000	-	-
1,001-5,000	4	12,614
5,001-10,000	69	616,986
10,001-100,000	119	5,252,983
100,001-99,999,999,999	80	1,795,228,504
	<u>272</u>	<u>1,801,111,087</u>

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

## Heritage Brands Limited

### Additional Information for Listed Public Companies

31 July 2015

#### Twenty largest shareholders

	Ordinary shares	
	Number held	% of issued shares
SOULS PRIVATE EQUITY LIMITED	452,470,639	25.1%
RAWLO INTERNATIONAL PTY LIMITED <MCCARTNEY FAMILY A/C>	341,797,912	19.0%
MAXIM KROK*	160,174,133	8.9%
MR STEPHEN LESLIE MASON <STEPHEN LESLIE MASON S/F A/C>*	140,000,000	7.8%
CVC LIMITED	135,163,381	7.5%
AKOCA PTY LTD <AKOCA A/C>*	120,174,134	6.7%
RAWLO INTERNATIONAL PTY LTD <MCCARTNEY FAMILY S/F A/C>	110,672,727	6.1%
MAXIMIZE EQUITY PTY LTD <MAXIMIZE EQUITY TRUST>*	91,431,644	5.1%
S GOODEY PTY LTD	39,487,967	2.2%
PTJ HOLDINGS PTY LIMITED <PJT A/C>	31,698,634	1.8%
JKL DEVELOPMENTS PTY LIMITED <PHT COX FAMILY A/C>*	31,698,634	1.8%
MR STEVEN ANDREW O'NEILL <O'NEILL FAMILY A/C>	18,299,034	1.0%
MR CONSTANTINOS GENDIS*	13,333,333	0.7%
MR STEPHEN MASON*	12,895,060	0.7%
KISTANI HOLDINGS PTY LIMITED*	11,369,060	0.6%
MR STEPHEN MASON*	11,000,000	0.6%
EGP FUND NO 1 PTY LTD	10,000,001	0.6%
MR CHRISTOPHER MC GIBBON & MRS ELIZABETH MC GIBBON <BRAZEN SUPER FUND A/C>*	8,003,333	0.4%
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,060,246	0.4%
MR ALEXANDER DAMIEN BEARD & MRS MARIE PASCALE BEARD <AD & MP BEARD SUPER FUND A/C>	7,000,000	0.4%
MR ELLIOTT KAPLAN & MRS BRENDA KAPLAN <KAPLAN FAMILY SUPER FUND A/C>	7,000,000	0.4%

\* Signifies a Director controlled entity

#### Company secretary

The name of the company secretary is Christopher William McGibbon.

#### Principal address

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

#### Registers of securities

Registers of securities are held at the following addresses:

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

Victoria 30 Bando Road, Springvale, VIC 3171.

#### Securities exchange

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

#### Unquoted securities

There are no unquoted securities.