

HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES

ABN: 91 081 149 635

**Financial Report For The Half Year Ended
31 January 2011**

HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES

ABN: 91 081 149 635

Financial Report For The Year Ended 31 December 2010

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

The directors present their report on the financial statements of the consolidated group for the half-year ended 31 January 2011

Directors

The directors who held office during or since the end of the half-year are:

FAIRFULL David John (Non-executive Chairman)
KROK Maxim (Non-executive Director)
BEINART Steven (Non-Executive Director)
GOODEY Stephen Donald Alfred (Managing Director) appointed (6/08/2010)
MASON Stephen Leslie (Non-executive Director) appointed (6/08/2010)
McCARTNEY William Thomson (Non-executive Director) appointed (6/08/2010)
COX Peter Henry Townsend (Non-executive Director) appointed (6/08/2010)
SMITH Brent Charles Albert (Non-executive Director) appointed (6/08/2010)
FAIRFULL Andrew retired (6/08/2010)

Review of Operations

Heritage Brands Limited (Heritage) has recorded a net profit after tax of \$306,574 (after charging relocation expenses of \$970,083) for the half year ended 31 January 2011. This result is an improvement over the previous corresponding period (31 January 2010: Loss of \$540,099).

1. As previously announced, at an Extraordinary meeting of shareholders held on 06 August 2010 the shareholders of the company approved the purchase of 100% interest in Heritage Brands (Australia) Pty Ltd (Formerly Creative Brands Pty Ltd) (CB), in consideration for the issue by the company of 217,762,810 ordinary shares.
2. The improvement in the half year results is mainly attributed to the increase in sales and economies of scale associated with the acquisition of CB, (accounted in Heritage Brands' books from 6 August 2010), as well as the full benefits of the acquisition of the Innoxia business on 1 November 2009 flowing through to the current reporting period.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the consolidated group occurred during the financial half-year:

1. At an Extraordinary meeting of shareholders held on 06 August 2010 the shareholders of the company:
 - Approved the purchase of 100% interest in Heritage Brands (Australia) Pty Ltd (Formerly Creative Brands Pty Ltd) (CB), in consideration for the issue by the company of 217,762,810 ordinary shares and the appointment of following former associates of CB as directors of the Company:
 - a) William McCartney
 - b) Stephen Leslie Mason
 - c) Stephen Donald Alfred Goodey
 - d) Peter Henry Townsend Cox
 - Approved change of company name from Soda Brands Limited to Heritage Brands Limited to better reflect the brand value of the consolidated group.
2. Name of the company was changed to Heritage Brands Limited on 12 August 2010.
3. The share sale agreement between Heritage Brands Limited and CB was executed in July 2010.
4. The executive service agreement with Stephen Donald Alfred Goodey as per terms of sale agreement was executed in July 2010.
5. A deed of equalisation for new loans to be provided by incoming directors was executed on 20 August 2010.
6. A loan agreement for new facilities from shareholders amounting to \$2.8 million was executed on 20 August 2010.
7. New shares issued to former shareholders of CB were listed on NSX on 10 August 2010.
8. New loans amounting to \$962,857 were received from shareholders of the consolidated group.
9. Commercial operations were amalgamated and relocated to CB premises in Melbourne, in August 2010.

Dividends Paid or Recommended

There were no dividends paid or proposed during the half-year.

Events after the Reporting Period

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the half year ended 31 January 2011 has been received and can be found on page 2 of the Half Year Report.

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



FAIRFULL David John (Non-exec Chairman)

Dated: 14/04/2011



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

I declare that, to the best of my knowledge and belief, during the half year ended 31 January 2011 there have been:

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

Name of Partner Mr Graham R. Swan, FCA

Date

14/04/2011



Chartered Accountants

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Liability Limited
by a scheme approved
under Professional
Standards Legislation

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
CONSOLIDATED INCOME STATEMENT FOR THE HALF YEAR ENDED 31 JANUARY 2011

| | Note | Consolidated Group 2011 \$ | 2010 \$ |
|--|------|----------------------------------|------------------|
| Continuing operations | | | |
| Sales Revenue | | 13,158,747 | 3,107,084 |
| Cost of Sales | | (5,703,738) | (1,553,607) |
| Gross Profit | | 7,455,009 | 1,553,477 |
| Other income | | 294,463 | 1,108 |
| Distribution expenses | | (827,326) | (346,086) |
| Marketing expenses | | (2,948,370) | (1,088,387) |
| Occupancy expenses | | (239,323) | (22,322) |
| Administrative expenses | | (1,681,191) | (483,559) |
| Impairment of property, plant and equipment | | (355,828) | (68,505) |
| Finance costs | | (420,777) | (85,825) |
| Profit/(loss) before relocation costs | | 1,276,657 | (540,099) |
| Relocation costs | | (970,083) | - |
| Profit/(loss) before income tax | 3 | 306,574 | (540,099) |
| Income tax expense | | - | - |
| Profit/(loss) for the half year | | 306,574 | (540,099) |
| Earnings per share | | | |
| From continuing and discontinued operations | | | |
| Basic earnings per share (cents) | 4 | 0.07 | (0.57) |
| Diluted earnings per share (cents) | 4 | 0.07 | (0.57) |

The accompanying notes form part of these financial statements.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 JANUARY
2011**

| | Consolidated Group | |
|--|--------------------|------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Profit/(loss) for the half year | 306,574 | (540,099) |
| Other comprehensive income: | | |
| Other comprehensive income for the half year, net of tax | - | - |
| Total comprehensive income/(loss) for the half year | <u>306,574</u> | <u>(540,099)</u> |

The accompanying notes form part of these financial statements.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2011**

| | Consolidated Group | |
|--|--------------------|------------------|
| | As at | As at |
| Note | 31 January 2011 | 31 July 2010 |
| | \$ | \$ |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 422,302 | 354,136 |
| Trade and other receivables | 3,652,320 | 950,213 |
| Inventories | 3,965,733 | 881,409 |
| Other assets | 89,865 | 133,131 |
| TOTAL CURRENT ASSETS | 8,130,220 | 2,318,889 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 1,125,595 | 448,551 |
| Deferred tax assets | 363,566 | - |
| Intangible assets | 5,185,472 | 1,549,502 |
| TOTAL NON-CURRENT ASSETS | 6,674,633 | 1,998,053 |
| TOTAL ASSETS | 14,804,853 | 4,316,942 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | 4,555,039 | 2,652,782 |
| Financial liabilities - interest bearing | 1,617,308 | - |
| Short-term provisions | 200,668 | 7,246 |
| TOTAL CURRENT LIABILITIES | 6,373,015 | 2,660,028 |
| NON-CURRENT LIABILITIES | | |
| Financial liabilities | 10 2,832,857 | 770,000 |
| Deferred tax liabilities | 22,881 | - |
| Long-term provisions | 228,448 | 201,093 |
| TOTAL NON-CURRENT LIABILITIES | 3,084,186 | 971,093 |
| TOTAL LIABILITIES | 9,457,201 | 3,631,121 |
| NET ASSETS | 5,347,652 | 685,821 |
| EQUITY | | |
| Issued capital | 5 16,102,935 | 11,747,678 |
| Accumulated losses | (10,755,283) | (11,061,857) |
| TOTAL EQUITY | 5,347,652 | 685,821 |

The accompanying notes form part of these financial statements.

AND CONTROLLED ENTITIES

STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 JANUARY 2011

| | Issued Capital (Ordinary) | Accumulated Losses | Total Equity |
|--|---------------------------------|-----------------------|------------------|
| | \$ | \$ | \$ |
| Consolidated Group | | | |
| Balance at 1 August 2009 | 7,885,005 | (8,343,475) | (458,470) |
| Total other comprehensive loss for the half year | - | (540,099) | (540,099) |
| Shares issued during the period | 3,862,673 | - | 3,862,673 |
| Balance at 31 January 2010 | <u>11,747,678</u> | <u>(8,883,574)</u> | <u>2,864,104</u> |
| Balance at 1 August 2010 | 11,747,678 | (11,061,857) | 685,821 |
| Total other comprehensive income for the half year | - | 306,574 | 306,574 |
| Shares issued during the period | 4,355,257 | - | 4,355,257 |
| Balance at 31 January 2011 | <u>16,102,935</u> | <u>(10,755,283)</u> | <u>5,347,652</u> |

The accompanying notes form part of these financial statements.

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 JANUARY 2011

| | Consolidated Group | |
|--|--------------------|-------------|
| | Half year | Half year |
| | ended 31 | ended 31 |
| Note | January | January |
| | 2011 | 2010 |
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | 15,997,696 | 3,865,298 |
| Interest received | 10,768 | 1,108 |
| Payments to suppliers and employees | (16,787,859) | (4,520,191) |
| Finance costs | (379,802) | (85,825) |
| Net cash used in operating activities before relocation costs | (189,114) | (739,610) |
| Relocation costs | (970,083) | - |
| Net cash used in operating activities | (1,159,197) | (739,610) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (238,108) | (591,385) |
| Goodwill on acquisition of controlled entities | - | (1,549,502) |
| Net cash used in investing activities | (238,108) | (2,140,887) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of shares | - | 3,862,673 |
| Proceeds from borrowings | 1,023,314 | - |
| Repayment of borrowings | (61,982) | (629,885) |
| Net cash provided by financing activities | 961,332 | 3,232,788 |
| Net increase(decrease) in cash held | (435,973) | 352,291 |
| Cash and cash equivalents at beginning of the period | 354,136 | 19,679 |
| Cash and cash equivalents acquired on acquisition of controlled entities | 504,139 | - |
| Cash and cash equivalents at end of the period | 422,302 | 371,970 |

The accompanying notes form part of these financial statements.

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 JANUARY 2011

Note 1 Summary of Significant Accounting Policies

Heritage Brands Limited (the 'Company') is a company domiciled in Australia. The Consolidated Financial Report of the Company for the half year ended 31 January 2011 comprises the Company and its controlled entities (together referred to as the 'consolidated group').

(a) Statement of compliance

The half year Consolidated Financial Report has been prepared in accordance with the measurement requirements of Australian Accounting Standards ('AASs') adopted by the Australian Accounting Standards Board ('AASB') for the purpose of fulfilling the consolidated group's obligation under the National Stock Exchange ('NSX') listing rules.

(b) Basis of Preparation

The half year financial report is presented in Australian dollars.

The half year financial report is prepared on the historical cost basis.

The accounting policies have been applied consistently and a full description of the accounting policies adopted by the consolidated group may be found in the consolidated group's 31 July 2010 full financial report.

(c) Going Concern Basis

During the half-year ended 31 January 2011, the Consolidated Group incurred a negative operating cashflow of \$1,159,197, although it should be noted that relocation costs of \$970,083 are included within this result. The net negative operating cashflow, before relocation costs is \$189,114 (31 January 2010: \$739,610).

Notwithstanding the above, the financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

To continue as a going concern the Consolidated Group may require additional funding to be secured within the next year from sources including:

- * the rolling over of existing borrowings from the major shareholders,
- * raising additional borrowings from major shareholders from the \$2.8m loan facility agreements already in place,
- * equity capital raising.
- * the generation of sufficient funds from operating activities, subsequent to the acquisition of 100% interest in Heritage Brands (Australia) Pty Ltd (formerly Creative Brands Pty Ltd) and consolidation of the business activities in Victoria, and
- * bank facilities sought being offered and accepted

In addition, the net asset position has improved as follows:

- * As at 31 January 2011, the Consolidated Group has a surplus of Current Assets over Current Liabilities of \$1,757,205 (31 July 2010: deficit \$341,139).

Having carefully assessed the likelihood of securing additional funding, the Consolidated Group's ability to effectively manage its expenditure and cash flows from operations, the directors believe that the Consolidated Group will continue to operate as a going concern for the foreseeable future and therefore it is appropriate to prepare the financial statements on a going concern basis.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is significant uncertainty whether the Consolidated Group will continue to operate a going concern. If the Consolidated Group is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial reports relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the Consolidated Group not continue as a going concern.

Note 2 Revenue and Other Income

| | Note | Consolidated Group Half year ended 31 January 2011 \$ | Half year ended 31 January 2010 \$ |
|--|------|--|--|
| Revenue from Continuing Operations | | | |
| Sales Revenue | | | |
| — sale of goods | | 13,158,747 | 3,107,084 |
| | | <u>13,158,747</u> | <u>3,107,084</u> |
| Other Revenue | | | |
| — interest received | 2(a) | 10,768 | 1,108 |
| — other revenue | | 283,695 | - |
| | | <u>294,463</u> | <u>1,108</u> |
| Total Revenue | | <u>13,453,210</u> | <u>3,108,192</u> |
| (a) Interest revenue from: | | | |
| — other persons | | 10,768 | 1,108 |
| Total interest revenue on financial assets not at fair value through profit or loss | | <u>10,768</u> | <u>1,108</u> |

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 JANUARY 2011

Note 3 Profit for the Year

| | Consolidated Group | |
|---|--------------------|-----------------|
| | Half year ended | Half year ended |
| | 31 January 2011 | 31 January 2010 |
| (a) Expenses | | |
| Cost of sales | \$ 5,703,738 | \$ 1,553,607 |
| Interest expense on financial liabilities not at fair value through profit or loss: | | |
| — Associated entities | 131,467 | 82,077 |
| — Other persons | 289,310 | 3,748 |
| Total interest expense | <u>420,777</u> | <u>85,825</u> |
| Rental expense on operating leases | | |
| — minimum lease payments | 200,748 | - |
| (b) Significant Revenue and Expenses | | |
| The following significant revenue and expense items are relevant in explaining the financial performance: | | |
| Costs associated with relocating the operations to Melbourne | 970,083 | - |

Note 4 Controlled Entities

(a) Controlled Entities Consolidated

| | Country of Incorporation | Percentage Owned (%)* | |
|--|--------------------------|-----------------------|--------------|
| | | 31 January 2011 | 31 July 2010 |
| Subsidiaries of Heritage Brands Limited: | | | |
| SO Distributions Pty Ltd | Australia | 100.00 | 100.00 |
| Salon Only Pty Ltd | Australia | 100.00 | 100.00 |
| Soda Brands (NZ) Limited | New Zealand | 100.00 | 100.00 |
| Soda Brands (UK) Limited | United Kingdom | 100.00 | 100.00 |
| Kistani Pty Ltd | Australia | 100.00 | 100.00 |
| Innoxia Group Pty Ltd | Australia | 100.00 | 100.00 |
| Innoxia Holdings Pty Ltd | Australia | 100.00 | 100.00 |
| Innoxia Marks Pty Ltd | Australia | 100.00 | 100.00 |
| Incolabs Pty Ltd | Australia | 100.00 | 100.00 |
| Heritage Brands (Australia) Pty Ltd (formerly Creative Brands Pty Limited) | Australia | 100.00 | 0.00 |

* Percentage of voting power is in proportion to ownership

(b) Acquisition of Controlled Entities

On 6th August 2010 the parent entity acquired 100% interest in Heritage Brands (Australia) Pty Ltd (formerly Creative Brands Pty Limited).

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

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 JANUARY 2011**

Note 5 Issued Capital

| | Consolidated Group | |
|--|--------------------|--------------------|
| | 31 January 2011 | 31 July 2010 |
| | \$ | \$ |
| 445,723,028 (2010: 239,859,825) fully paid ordinary shares | 16,102,935 | 11,747,678 |
| | <u>16,102,935</u> | <u>11,747,678</u> |
| | | |
| | Consolidated Group | |
| | 31 January 2011 | 31 July 2010 |
| | No. | No. |
| (a) Ordinary Shares | | |
| At the beginning of the reporting period | | |
| Shares issued during the year | 239,859,825 | 46,156,208 |
| — 31/10/2009 | - | 570,000 |
| — 16/12/2009 | - | 193,133,617 |
| 6/08/2010 - in consideration of acquisition of Heritage Brands | | |
| — (Australia) Pty Ltd (formerly Creative Brands Pty Limited). | 217,762,810 | - |
| At the end of the reporting period | <u>457,622,635</u> | <u>239,859,825</u> |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Options

- (i) For information relating to the Heritage Brands Limited employee option plan, including details of options issued, exercised and lapsed during the previous financial year and the options outstanding at half year-end, refer to Note 8: Share-based Payments. No options have been issued during

Note 6 Contingent Assets

Deferred Tax Asset on carried forward tax losses

The parent entity, Heritage Brands Limited ("Heritage"), incurred tax losses from its operations in previous financial years. These tax losses gave rise to deferred tax assets which were not recognised in the financial statements of Heritage due to the accounting policy of showing unused tax losses only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. The balance of deferred tax asset in relation to the carried forward losses of Heritage, as disclosed in the financial statements for the year ended 31 July 2010 was \$1,715,148.

As the deductibility of the carried forward losses has not been confirmed, no Deferred Tax Asset in relation to the carried forward losses has been raised in the Statement of Financial Position as at 31 January 2011.

Note 7 Operating Segments

Segment Information

Identification of reportable segments

The Consolidated 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 in determining the allocation of resources.

The consolidated group is managed primarily on the basis of product category since the diversification of the consolidated group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment; and
- the distribution method.

Types of products and services by segment

(i) Distribution

The distribution segment distributes the consolidated group's stock items both domestically and internationally. Distribution division provides a range of services throughout Australia, Fiji Islands, Singapore and New Zealand.

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Consolidated Group.

(b) Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Consolidated Group's financial statements.

Corporate charges are allocated to reporting segments based on the segment's overall proportion of revenue generation within the Consolidated Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 JANUARY 2011**

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

(c) Segment assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives the majority of economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

(d) Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

(e) Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Income tax expense
- Deferred tax assets and liabilities
- Intangible assets

(i) Segment performance

| | Distribution | Total |
|--|---------------------|-------------------------|
| | \$ | \$ |
| 31 January 2011 | | |
| REVENUE | | |
| External sales | 13,158,747 | 13,158,747 |
| Interest revenue | 10,768 | 10,768 |
| Total segment revenue | <u>13,169,515</u> | <u>13,169,515</u> |
| <i>Reconciliation of segment revenue to consolidated group revenue</i> | | |
| Other revenue | | 283,695 |
| Total consolidated group revenue | | <u>13,453,210</u> |
| Segment net profit before tax | | <u>1,083,179</u> |
| <i>Reconciliation of segment result to consolidated group net profit/loss before tax</i> | | |
| i. Amounts not included in segment result but reviewed by Board | | |
| — Depreciation and amortisation | | (355,828) |
| ii. Unallocated items | | |
| — Finance costs | | (420,777) |
| Net profit before tax from continuing operations | | <u><u>306,574</u></u> |
| | Distribution | Total |
| | \$ | \$ |
| 31 January 2010 | | |
| REVENUE | | |
| External sales | 3,087,369 | 3,087,369 |
| Interest revenue | 1,108 | 1,108 |
| Total segment revenue | <u>3,088,477</u> | <u>3,088,477</u> |
| <i>Reconciliation of segment revenue to consolidated group revenue</i> | | |
| Other revenue | | 19,816 |
| Inter segment elimination | | |
| Revenue from discontinued operations | | |
| Total consolidated group revenue | | <u>3,108,293</u> |
| Segment net profit before tax | | <u>(385,669)</u> |
| <i>Reconciliation of segment result to consolidated group net profit/loss before tax</i> | | |
| i. Amounts not included in segment result but reviewed by Board | | |
| — Depreciation and amortisation | | (68,605) |
| ii. Unallocated items | | |
| — Finance costs | | (85,825) |
| Net loss before tax from continuing operations | | <u><u>(540,099)</u></u> |

(ii) Segment assets

| | Distribution | Total |
|--|---------------------|-------------------|
| | \$ | \$ |
| 31 January 2011 | | |
| Segment assets | 9,619,381 | 9,619,381 |
| <i>Reconciliation of segment assets to consolidated group assets</i> | | |
| Unallocated assets: | | |
| — Intangibles | | 5,185,472 |
| Total consolidated group assets | | <u>14,804,853</u> |
| | Distribution | Total |
| | \$ | \$ |
| 31 July 2010 | | |
| Segment assets | 4,316,942 | 4,316,942 |
| <i>Reconciliation of segment assets to consolidated group assets</i> | | |
| Unallocated assets: | | |
| — Intangibles | | 1,549,502 |
| Total consolidated group assets | | <u>5,866,444</u> |

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 JANUARY 2011

(iii) Segment liabilities

| | Distribution | Total |
|--|---------------------|------------------|
| | \$ | \$ |
| 31 January 2011 | | |
| Segment liabilities | 7,839,893 | 7,839,893 |
| <i>Reconciliation of segment liabilities to consolidated group liabilities</i> | | |
| Unallocated liabilities: | | |
| — Borrowings | | 1,617,308 |
| Total consolidated group liabilities | | 9,457,201 |
| | Distribution | Total |
| | \$ | \$ |
| 31 July 2010 | | |
| Segment liabilities | 3,631,121 | 3,631,121 |
| <i>Reconciliation of segment liabilities to consolidated group liabilities</i> | | |
| Unallocated liabilities: | | |
| — Borrowings | | - |
| Total consolidated group liabilities | | 3,631,121 |

(iv) Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

| | 31 January | 31 January |
|----------------------|-------------------|-------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Australia | 11,874,726 | 3,104,409 |
| New Zealand | 1,253,246 | 2,675 |
| Fiji Islands | 29,278 | - |
| Singapore | 1,497 | - |
| Total revenue | 13,158,747 | 3,107,084 |

(v) Assets by geographical region

The location of segment assets by geographical location of the assets is disclosed below:

| | 31 January | 31 July |
|---------------------|-------------------|------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Australia | 9,619,378 | 4,316,939 |
| New Zealand | 1 | 1 |
| United Kingdom | 2 | 2 |
| Total Assets | 9,619,381 | 4,316,942 |

Note 8 Share-based Payments

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

| | Consolidated Group | |
|---|---------------------------|---------------------------------------|
| | Number | Weighted average exercise price |
| A summary of the movements of all company options issued is as follows: | | |
| Outstanding as at 31 July 2009 | 1,750,000 | 25c |
| Forfeited | (1,500,000) | 25c |
| Outstanding as at 31 July 2010 | 250,000 | 25c |
| Forfeited | - | - |
| Outstanding as at 31 January 2011 | 250,000 | 25c |
| Options exercisable as at 31 July 2010: | 250,000 | 25c |
| Options exercisable as at 31 January 2011: | 250,000 | 25c |

Note 9 Events After the Reporting Period

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

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 JANUARY 2011

Note 10 Related Party Transactions

(a) Amounts payable to related parties

| | | Consolidated Group | |
|--------------------------------------|--|--------------------|----------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| i. Loans from shareholders | | | |
| Souls Private Equity Ltd | | 636,216 | 385,000 |
| Maximize Equity Pty Ltd | | 609,641 | 385,000 |
| Rawlo International Pty Ltd | | 1,280,000 | - |
| Stephen Mason | | 140,000 | - |
| PJT Holdings Pty Ltd | | 40,000 | - |
| S. Goodey Pty Ltd | | 40,000 | - |
| JKL Developments Pty Ltd | | 40,000 | - |
| Steven O'Neill | | 40,000 | - |
| Christopher Mc Gibbon | | 7,000 | - |
| | | <u>2,832,857</u> | <u>770,000</u> |

The shareholder loans attract interest at 10% p.a and are secured by fixed and floating charges over assets of the consolidated group (except for trade receivables).

Note 11 Company Details

The registered office of the company is:

Heritage Brands Limited
30 Bando Road
Springvale
VIC 3171

The principal place of business is:

Heritage Brands Limited
30 Bando Road
Springvale
VIC 3171

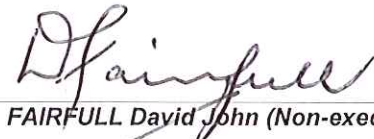
HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 3 to 13, are in accordance with the Corporations Act 2001 and:
 - (a) comply with the Australian Accounting Standard AASB 134: *"Interim Financial Reporting"*; and
 - (b) give a true and fair view of the financial position as at 31 January 2011 and of the performance for the half year ended on that date of the company and consolidated group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Director


FAIRFULL David John (Non-exec Chairman)

Dated this

14th

day of

April

2011



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

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES

Report on the Half-Year Financial Statements

We have reviewed the accompanying half-year financial statements of Heritage Brands Limited and controlled entities (the consolidated group), which comprise the consolidated statement of financial position as at 31 January 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, the accounting policies and other selected explanatory notes, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Statements

The directors of the consolidated group are responsible for the preparation and fair presentation of the half-year financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial statements based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial statements are not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated group's financial position as at 31 January 2011 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Heritage Brands Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of a half-year financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Matters Relating to the Electronic Presentation of the Reviewed Financial Statements.

This review report relates to the financial statements of the consolidated group for the half-year ended 31 January 2011 included on the website of Heritage Brands Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the half-year financial statements identified above and it does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the reviewed financial statements to confirm the information included in the reviewed financial statements presented on the company's website.



Chartered Accountants

Level 1, 12 O'Connell Street, Sydney NSW 2000

GPO Box 542, Sydney NSW 2001

www.rothsay.com.au

Phone: (02) 8815 5400 Fax: (02) 8815 5401

ABN: 59 087 479 410



Liability Limited
by a scheme approved
under Professional
Standards Legislation

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

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF
HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES

Independence

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

Emphasis of Matter

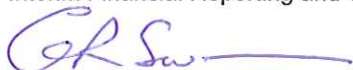
Without any qualification to the review conclusion expressed below, attention is drawn to Note 1 of the financial statements, which states that the the financial statements have been prepared on a going concern basis based on the continued financial support from its major shareholders.

In the event that the assumptions underpinning the basis of preparation do not occur as anticipated, there is significant uncertainty whether the Consolidated Group will continue to operate as a going concern. If the Consolidated Group is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

Conclusion

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

- (a) giving a true and fair view of the consolidated group's financial position as at 31 January 2011 and of its performance for the half-year ended on that date; and
- (b) complying with AASB 134: Interim Financial Reporting and Corporations Regulations 2001.



Name of Partner: Mr Graham R. Swan, FCA

Dated this 14th day of April 2011