

HERITAGE BRANDS LIMITED AND CONTROLLED ENTITIES

ABN: 91 081 149 635

**Financial Report For The Year Ended
31 July 2011**

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ABN: 91 081 149 635

Financial Report For The Year Ended 31 July 2011

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

Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities for the financial year ended 31 July 2011.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated Group during the financial year were:

- selling and distribution of branded cosmetics, toiletries, skincare and nail care products.

There were no significant changes in the nature of the consolidated Group's principal activities during the financial year, except as disclosed below.

Operating Results and Review of Operations for the year

Heritage Brands Limited Group (the Group) recorded a loss of \$408,381 (after charging relocation expenses of \$982,451) for the full year ended 31 July 2011. This result is an improvement over the previous corresponding year (31 July 2010: loss of \$2,718,382).

The improvement in the results is mainly attributed to an increase in sales and synergies associated with the acquisition of Heritage Brands (Australia) Pty Ltd (formerly Creative Brands Pty Ltd) (HBA), (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.

The purchase of 100% interest in Heritage Brands (Australia) Pty Ltd (formerly Creative Brands Pty Ltd) was funded by the issue of 217,762,810 ordinary shares.

Financial Position

The net assets of the consolidated Group have increased by \$3,946,877 from 31 July 2010 to \$4,632,688 in 2011. This increase is largely due to:

- Increase in the issued share capital on the acquisition of HBA.

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

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the group occurred during the financial 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) (HBA), in consideration for the issue of 217,762,810 ordinary shares of the company and the appointment of following former associates of HBA as directors of the Company:

- a) GOODEY Stephen Donald Alfred (Managing Director)
- b) MASON Stephen Leslie (Non-Exec Director)
- c) McCARTNEY William Thomson (Non-Exec Director)
- d) COX Peter Henry Townsend (Non-Exec Director)

- Approved change of company name from Soda Brands Limited to Heritage Brands Limited to better reflect the brand activities of the Group.

2. The share sale agreement between Heritage Brands Limited and HBA was executed on 10 August 2010.

3. The executive service agreement with Stephen Donald Alfred Goodey as per terms of sale agreement was executed on 10 August 2010.

4. New shares issued to HBA were listed on NSX on 10 August 2010.

5. Name of the company was changed to Heritage Brands Limited on 12 August 2010.

6. A deed of equalisation for new loans to be provided by incoming directors was executed on 20 August 2010.

7. A loan agreement for new facilities from shareholders amounting to \$2.8 millions was executed on 20 August 2010.

8. New loans amounting to \$3,388,746 (net of principal repayments) were received from shareholders to the group.

9. Operations were amalgamated and relocated to HBA premises in Melbourne in August 2010.

Changes in controlled entities and divisions:

(i) Purchase of 100% of Heritage Brands (Australia) Pty Ltd, as disclosed above.

(ii) The following non-operating entities left the Group on de-registration:

- a) SO Distributions Pty Ltd
- b) Salon (Only) Pty Ltd
- c) Kistani Pty Ltd

Dividends Paid or Recommended

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

Events after the Reporting Period

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

Future Developments, Prospects and Business Strategies

To further improve the consolidated group's profit and maximise shareholder wealth, the following developments are intended to be implemented in the near future:

The Group's strategy is to grow the business organically and by acquisition, as and when opportunities arise. Integral to this strategy was the divestment of the Professional Hair Division 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, and Imedeen.

Environmental Issues

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

**HERITAGE BRANDS LIMITED ABN: 81 081 149 636 AND CONTROLLED ENTITIES
DIRECTORS' REPORT**

Information on Directors

FAIRFULL David John (Non-Exec Chairman)

Qualifications

Experience

- No change during the year
- B.Com (UNSW), A.C.I.S., C.P.A., Fin., M.A.I.C.D.
- Mr. David John Fairfull is merchant banker with over 40 years experience in mergers and acquisitions and underwriting projects. During the past three years, Mr. Fairfull has served as a Director of the following listed companies:
Soul Private Equity Limited
Drill Torque Limited
New Hope Corporation Limited*
- Washington H. Soul Pattinson and Company Limited*
- * denotes current directorship
- Mr. Fairfull represents Soul Private Equity Limited (SPEL), a major shareholder of the group. SPEL holds 114,962,106 Fully Paid Ordinary Shares - 25.12% of issued capital.

Interest in Shares and Options

- 620,000 Fully Paid Ordinary Shares

KROK Maxim (Non-Exec Director)

Interest in Shares and Options

- No change during the year
- The director is a nominee director appointed by Maximize Equity Pty Ltd (holding 91,431,644 Fully Paid Ordinary Shares - 19.98% of issued capital), the ultimate holding company of Kistani Holdings Pty Ltd (Kistani). Kistani holds 11,369,060 Fully Paid Ordinary Shares - 2.48% of issued capital

Special Responsibilities

- Chairman of remuneration committee and member of audit committee

BEINART Steven (Non-Exec Director)

Interest in Shares and Options

- No change during the year
- The director is a nominee director appointed by Maximize Equity Pty Ltd (holding 91,431,644 Fully Paid Ordinary Shares - 19.98% of issued capital), an ultimate holding company of Kistani Holdings Pty Ltd (Kistani). Kistani holds 11,369,060 Fully Paid Ordinary Shares - 2.46% of issued capital

Special Responsibilities

- Member of remuneration committee

GOODEY Stephen Donald Alfred (Managing Director)

Qualifications

Experience

Interest in Shares and Options

Special Responsibilities

- Appointed on 06 August 2010
- B.Com, MBA, IMM
- Extensive experience in FMCG companies internationally.
- 18,299,834 Fully Paid Ordinary Shares
- Member of remuneration committee

MASON Stephen Leslie (Non-Exec Director)

Qualifications

Interest in Shares and Options

Directorships held in other listed entities during the three years prior to the current year

Special Responsibilities

- Appointed on 06 August 2010
- LL.B., B.Com, FCPA, FCIS
- 63,895,060 Fully Paid Ordinary Shares - 13.96% of issued capital
- Lemarane Corporation Limited
- Member of audit committee

McCARTNEY William Thomson (Non-Exec Director)

Interest in Shares and Options

Special Responsibilities

- Appointed on 06 August 2010
- The director is a nominee director appointed by Rawlo International Inc (holding 80,671,614 Fully Paid Ordinary Shares - 17.63% of issued capital).
- Member of remuneration committee

COX Peter Henry Townsend (Non-Exec Director)

Qualifications

Interest in Shares and Options

Special Responsibilities

- Appointed on 06 August 2010
- B.Com (Melb), ACA
- 18,299,834 Fully Paid Ordinary Shares
- Chairman of audit committee

SMITH Brent Charles Albert (Non-Exec Director)

Qualifications

Special Responsibilities

- Appointed on 06 August 2010
- Mr. Smith represents Soul Private Equity Limited (SPEL), the largest shareholder of the group. SPEL holds 114,962,106 Fully Paid Ordinary Shares - 25.12% of issued capital.
- B.Bus, F.Fin
- Member of audit committee

Company Secretary

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

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

Meetings of Directors

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

	Remuneration Committee		Audit Committee		Directors' Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
FAIRFULL David John (Non-Exec Chairman)	-	-	-	-	12	11
KROK Maxim (Non-Exec Director)	1	1	2	1	12	8
BEINART Steven (Non-Exec Director)	1	1	-	-	12	12
GOODEY Stephen Donald Alfred (Managing Director)	1	1	-	-	12	12
MASON Stephen Leslie (Non-Exec Director)	-	-	2	2	12	12
McARTNEY William Thomson (Non-Exec Director)	1	1	-	-	12	10
COX Peter Henry Townsend (Non-Exec Director)	-	-	2	2	12	12
SMITH Brent Charles Albert (Non-Exec Director)	-	-	2	2	12	12

Indemnifying Officers or Auditor

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

- The company has paid premiums to insure each 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 of the company, other than conduct involving a wilful breach of duty in relation to the company. The premiums paid amounted to \$14,591 (2010: \$27,475).
- No indemnities have been issued or insurance premium paid in respect of auditors of the Company.

Options

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

Grant Date	Date of expiry	Exercise price	Number under option	Issued to
1/12/2006	31/07/2012	25c	250,000	FAIRFULL Andrew (Ex Director) in trust for Souls Private Equity Ltd.
			<u>250,000</u>	

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

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

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

During the year ended 31 July 2011, no ordinary shares of Heritage Brands Limited were issued on the exercise of options granted. No further shares have been issued since year end, on the exercise of options granted

Proceedings on Behalf of Company

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

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

Non-audit Services

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

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

The following fees were paid or payable to Rothsay Accounting Services Pty Ltd for non-audit services provided during the year ended 31 July 2011:

	\$
Taxation services	11,660
	<u>11,660</u>

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 July 2011 has been received and can be found on page 6 of the Annual Report.

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

REMUNERATION REPORT

Remuneration policy

The remuneration policy of Heritage Brands Limited is designed to align key management personnel 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 consolidated 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 consolidated 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 consolidated group is as follows:

- The remuneration policy is required to be developed by the remuneration committee and approved by the Board.
- 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 generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The remuneration committee reviews key management personnel packages annually by reference to the consolidated 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 consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, 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.

Performance-based Remuneration

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

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

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

Relationship between Remuneration Policy and Company Performance

The remuneration policy is tailored to increase goal congruence between shareholders, directors and executives. Two methods will be applied to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group, and to the extent different, among the five Group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

Position Held as at 31 July 2011 and any change during the year		
Group Key Management Personnel		
GOODEY Stephen Donald Alfred (Managing Director)	Appointed on 08 August 2010	
McGIBBON Christopher William (General Manager - shared services)	No change during the year	
		Proportions of elements of remuneration not related to performance
		Fixed Salary/Fees %
		Total %
Group Key Management Personnel		
GOODEY Stephen Donald Alfred (Managing Director)		100 100
McGIBBON Christopher William (General Manager - shared services)		100 100

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment.

Changes in Directors and Executives Subsequent to Year-end

There are no changes in directors and executives subsequent to year end.

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

Remuneration Details for the Year Ended 31 July 2011

The following table of payments and benefits details, in respect to the financial year, the components of remuneration for each member of the key management personnel for the consolidated group and, to the extent different, the five group executives and five company executives receiving the highest remuneration:


Table of Benefits and Payments for the year ended 31 July 2011

2011	Short-term benefits Salary, Fees and Leave \$	Post Employment Pension and superannuation \$	Total \$
Group Key Management Personnel			
GOODEY Stephen Donald Alfred (Managing Director)	314,932	28,844	343,276
McGIBBON Christopher William (General Manager - shared services)	232,336	18,760	251,066
	<u>547,268</u>	<u>47,094</u>	<u>594,362</u>
2010	Short-term benefits Salary, Fees and Leave \$	Post Employment Pension and superannuation \$	Total \$
Group Key Management Personnel			
BEINART Steven (Non-Exec Director)	20,000	1,800	21,800
McGIBBON Christopher William (General Manager - shared services)	206,316	18,681	224,977
	<u>226,316</u>	<u>20,481</u>	<u>246,777</u>

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

No options or bonuses were on offer as remuneration to key management personnel and other executives during the year.

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


FAIRFULL David John (Non-exec Chairman)

Dated this 14th day of October 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 year ended 31 July 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; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Name of Firm Rothsay Chartered Accountants

Name of Partner 
Graham Swan

Date 14-Oct-11

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



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

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
Continuing operations					
Revenue	2	24,652,756	7,094,340	260,280	1,178,817
Other income	2	140,803	-	-	-
Changes in inventories		(12,968,168)	(3,940,113)	(107,439)	(918,847)
Employee benefits expense		(3,018,537)	(2,241,135)	(44,291)	(368,796)
Sales, marketing and branding expense		(3,686,720)	(1,167,905)	(1,295)	(59,428)
Distribution Expense		(664,928)	(347,551)	-	(36,005)
Freight & cartage		(150,263)	(364,132)	(1,903)	(36,005)
Management fees		-	(168,314)	-	-
Depreciation and amortisation expense		(665,349)	(183,483)	-	(32,096)
Finance costs		(798,169)	(172,473)	-	(77,559)
Other expenses	3(b)	(3,249,606)	(1,227,816)	(125,619)	(477,971)
Loss before income tax	3	(408,381)	(2,718,382)	(20,267)	(827,890)
Income tax expense	4	-	-	-	-
Loss for the year	3	(408,381)	(2,718,382)	(20,267)	(827,890)
Earnings per share					
From continuing and discontinued operations					
Basic earnings per share (cents)	7	(0.09)	(1.63)		
Diluted earnings per share (cents)	7	(0.09)	(1.62)		
From continuing operations:					
Basic earnings per share (cents)	7	(0.09)	(1.63)		
Diluted earnings per share (cents)	7	(0.09)	(1.62)		

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 YEAR ENDED 31 JULY 2011

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
Loss for the year		(408,381)	(2,718,382)	(20,267)	(827,890)
Other comprehensive income for the year, net of tax		-	-	-	-
Total comprehensive loss for the year		(408,381)	(2,718,382)	(20,267)	(827,890)

The accompanying notes form part of these financial statements.

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

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	158,533	354,136	7,153	50,991
Trade and other receivables	9	2,988,656	950,213	2,946,891	3,005,358
Inventories	10	5,015,942	881,409	-	110,000
Other assets	15	174,538	133,131	406	11,447
TOTAL CURRENT ASSETS		8,337,669	2,318,889	2,954,450	3,177,796
NON-CURRENT ASSETS					
Other financial assets	11	-	-	4,355,362	805
Property, plant and equipment	13	885,221	448,551	-	26,082
Deferred tax assets	18	363,566	-	-	-
Intangible assets	14	5,185,472	1,549,502	-	-
TOTAL NON-CURRENT ASSETS		6,434,259	1,998,053	4,355,362	26,887
TOTAL ASSETS		14,771,928	4,316,942	7,309,812	3,204,683
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	16	3,646,492	2,652,782	5	486,512
Borrowings	17	2,088,268	-	256,645	-
Provisions	19	7,246	7,246	-	-
TOTAL CURRENT LIABILITIES		5,742,006	2,660,028	256,650	486,512
NON-CURRENT LIABILITIES					
Borrowings	17	4,138,746	770,000	-	-
Deferred tax liabilities	18	22,881	-	-	-
Other provisions	19	235,597	201,093	-	-
TOTAL NON-CURRENT LIABILITIES		4,397,224	971,093	-	-
TOTAL LIABILITIES		10,139,230	3,631,121	256,650	486,512
NET ASSETS		4,632,698	685,821	7,053,162	2,718,171
EQUITY					
Issued capital	20	16,102,935	11,747,678	16,102,935	11,747,878
Accumulated losses		(11,470,237)	(11,061,857)	(9,049,773)	(9,029,507)
TOTAL EQUITY		4,632,698	685,821	7,053,162	2,718,171

The accompanying notes form part of these financial statements.

HERITAGE BRANDS LIMITED ABN: 91 081 149 635
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JULY 2011

	Note	Ordinary Share Capital	Accumulated Losses	Total
Consolidated Group		\$	\$	\$
Balance at 1 August 2009		7,885,006	(8,343,475)	(458,469)
Comprehensive Income				
Loss for the year		-	(2,718,382)	(2,718,382)
Total comprehensive income for the year		-	(2,718,382)	(2,718,382)
Transactions with owners, in their capacity as				
Shares issued during the year		3,862,672	-	3,862,672
Total transactions with owners		3,862,672	-	3,862,672
Balance at 31 July 2010		11,747,678	(11,061,857)	685,821
Balance at 1 August 2010		11,747,678	(11,061,857)	685,821
Comprehensive Income				
Loss for the year		-	(408,381)	(408,381)
Total comprehensive income for the year		-	(408,381)	(408,381)
Transactions with owners, in their capacity as				
Shares issued during the year	20	4,355,257	-	4,355,257
Total transactions with owners		4,355,257	-	4,355,257
Balance at 31 July 2011		16,102,935	(11,470,237)	4,632,698
Parent Entity				
Balance at 1 August 2009		\$	\$	
		7,885,006	(8,201,617)	(316,610)
Comprehensive income				
Loss for the year			(827,890)	(827,890)
Total comprehensive income for the year		-	(827,890)	(827,890)
Transactions with owners, in their capacity as				
Shares issued during the year		3,862,672	-	3,862,672
Total transactions with owners		3,862,672	-	3,862,672
Balance at 31 July 2010		11,747,678	(9,029,507)	2,718,172
Balance at 1 August 2010		11,747,678	(9,029,507)	2,718,172
Comprehensive income				
Loss for the year		-	(20,267)	(20,267)
Total comprehensive income for the year		-	(20,267)	(20,267)
Transactions with owners, in their capacity as				
Shares issued during the year	20	4,355,257	-	4,355,257
Total transactions with owners		4,355,257	-	4,355,257
Balance at 31 July 2011		16,102,935	(9,049,773)	7,053,162

The accompanying notes form part of these financial statements.

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

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		28,447,568	7,061,593	452,091	1,427,283
Interest received		14,156	2,724	763	624
Payments to suppliers and employees	A	(30,832,137)	(10,580,344)	(645,333)	(1,722,014)
Finance costs		(798,169)	(172,474)	-	(77,559)
Net cash provided by/(used in) operating activities	24a	(3,168,582)	(3,668,501)	(192,479)	(371,666)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		-	171	-	171
Purchase of business		-	-	-	(101)
Purchase of property, plant and equipment		(369,309)	-	-	-
Loans made to subsidiaries		-	-	-	(2,828,222)
Net cash provided by/(used in) investing activities		(369,309)	171	-	(2,828,152)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	3,232,787	-	3,232,787
Proceeds from borrowings (net)		2,838,149	770,000	148,641	-
Net cash provided by/(used in) financing activities		2,838,149	4,002,787	148,641	3,232,787
Net increase(decrease) in cash held		(699,742)	334,457	(43,838)	32,969
Cash and cash equivalents at beginning of financial year	8	354,136	19,679	50,991	18,022
Cash and cash equivalents acquired on acquisition of controlled entities		504,139	-	-	-
Cash and cash equivalents at end of financial year	8	158,533	354,136	7,153	50,991

Note (A)

Payments to suppliers and employees in 2011 includes \$982,451 (2010: nil), incurred in connection with relocating Sydney operations to Melbourne.

The accompanying notes form part of these financial statements.

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

These consolidated financial statements and notes represent those of Heritage Brands Limited and Controlled Entities (the "Consolidated Group" or "Group"). The financial statements were authorised for issue on 12 October 2011 by the directors of the company.

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report was authorised for issue on 14 October 2011 by the directors of the parent company..

Going concern basis

During the year ended 31 July 2011, the Group incurred negative operating cash flows of \$3,188,582.

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 Group may require additional funding to be secured within the next year from sources which may include:

- * deferment of the repayment of existing borrowings from the major shareholders;
- * raising additional borrowings from major shareholders;
- * equity capital raising; and
- * the generation of sufficient funds from operating activities as envisaged in operating budgets.

Having carefully assessed the uncertainties relating to likelihood of securing additional funding, the Group's ability to effectively manage their expenditure and cash flows from operations, the directors believe that the 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 Group will continue to operate as a going concern. If the 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 Group not continue as a going concern.

(a) Principles of Consolidation

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

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

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

Business Combinations

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

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

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

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

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

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

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 acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

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

Refer to Note 12(b) for information on the goodwill policy adopted by the Group for acquisitions.

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

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

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

(b) Income Tax

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

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

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

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

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

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

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

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

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

Tax Consolidation

Heritage Brands Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated Group under tax consolidation legislation. 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.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

**HERITAGE BRANDS LIMITED ABN: 91 081 149 635
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(d) Plant and Equipment

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

Plant and equipment

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

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

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

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

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, is depreciated on a straight-line or written down value basis over the asset's useful life to the consolidated Group commencing from the time the asset is held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	15-40%

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

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

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

(e) Leases

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

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

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

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

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

(f) Financial Instruments

Recognition and Initial Measurement

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

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

Classification and Subsequent Measurement

Finance Instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost.

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

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

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

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

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

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

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

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

(iv) Available-for-sale financial assets

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

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

(v) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Derecognition

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

(g) Impairment of Assets

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

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

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

(h) Other Intangibles

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses.

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(i) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

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

(j) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within 1 year have been measured at the amounts expected to be paid when the liability is settled.

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

(k) Provisions

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

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

(l) Cash and Cash Equivalents

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

(m) Revenue and Other Income

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

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

Interest revenue is recognised using the effective interest rate method.

Dividend revenue is recognised when the right to receive a dividend has been established.

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

(n) Borrowing Costs

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

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(o) Goods and Services Tax (GST)

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

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

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

(p) Comparative Figures

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

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

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(q) Critical Accounting Estimates and Judgments

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

Key Estimates

(i) Impairment

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

With respect to cash flow projections for plant and equipment based in Australia, growth rates of 3% have been factored into valuation models for the next five years on the basis of management's expectations around the Group's continued ability to capture market share from competitors. Cash flow growth rates of 3% subsequent to this period have been used as this reflects historical industry averages. The rates used incorporate allowance for inflation. Pre-tax discount rates of 10 years government bonds yield rates have been used in all models.

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

Key Judgements

(i) Provision for Impairment of Receivables

The directors believe that provisions for doubtful debts of \$9,189 (2010: \$9,038) and the provision for rebates of \$817,317 (2010: Nil) are reasonable and that all other trade debtors are fully recoverable as at the end of financial year.

(r) New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

— **AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).**

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

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

— **AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13) (applicable for annual reporting periods commencing on or after 1 January 2011)**

This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian Accounting Standard financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

— **AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)**

(AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127) (applies to periods beginning on or after 1 January 2013).

This standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

This Standard is not expected to impact the Group and/or the Company has not yet determined any potential impact.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2011

Note 2 Revenue and Other Income

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
(a) Revenue from continuing operations				
Sales revenue				
- - sale of goods	24,536,893	7,038,692	254,035	1,178,093
	24,536,893	7,038,692	254,035	1,178,093
Other revenue				
— interest received	14,156	2,724	763	624
— other revenue	101,707	52,824	5,482	100
	115,863	55,548	6,245	724
Total revenue	24,652,756	7,094,340	260,280	1,178,817
Other income				
- - other income	140,603	-	-	-
Total other income	140,603	-	-	-
Interest revenue from:				
— other persons	14,156	2,724	763	624
Total interest revenue on financial assets not at fair value through profit or loss	14,156	2,724	763	624

Note 3 Profit for the Year

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Profit before income tax from continuing operations includes the following specific expenses:				
(a) Expenses				
Cost of sales	12,968,168	3,940,113	107,439	918,847
Interest expense on financial liabilities not at fair value through profit or loss:				
— Ultimate parent entity	-	48,138	-	15,805
— Associated companies	295,629	47,470	-	13,981
— Other persons	502,540	76,865	-	47,973
Total finance cost	798,169	172,473	-	77,559
Employee benefits expense				
— employee benefits expense	3,018,537	2,241,135	44,291	368,796
Bad and doubtful debts:				
— trade receivables	(8,123)	30,469	-	30,367
Total bad and doubtful debts	(8,123)	30,469	-	30,367
Rental expense on operating leases				
— minimum lease payments	88,009	-	-	-
Loss on disposal of property, plant and equipment	44,068	40,649	26,082	-
Write-down of inventories to net realisable value	6,421	-	-	-
Write-off of obsolete stock	255,007	-	-	-
(b) Significant Revenue and Expenses				
The following significant revenue and expense items are relevant in explaining the financial performance:				
Costs associated with relocating the Sydney operations to Melbourne	982,451	-	-	-

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Note 4 Income Tax Expense

	Note	Consolidated Group 2011 \$	2010 \$	Parent Entity 2011 \$	2010 \$
(a) The components of tax expense comprise:					
Current tax		-	-	-	-
Deferred tax	18	-	-	-	-
(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2010: 30%)					
— consolidated Group		(122,514)	(815,515)	-	-
— parent entity		-	-	(6,080)	(248,367)
Add:					
Tax effect of:					
— other non-allowable items		1,987	331,808	-	8,332
— Deferred tax assets not brought to account		232,274	483,709	6,080	240,035
		111,747	(0)	(0)	(0)
Less:					
Tax effect of:					
— Other deductible expenses		111,747	-	-	-
Income tax attributable to entity		-	-	-	-
The applicable weighted average effective tax rates are as follows:		0.0%	0.0%	0.0%	0.0%

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

Note 5 Interests of Key Management Personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 July 2011.

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

	2011 \$	2010 \$
Short-term employee benefits	547,268	226,316
Post-employment benefits	47,094	20,461
	<u>594,362</u>	<u>246,777</u>

KMP Options and Rights Holdings

The number of options over ordinary shares held during the financial year by each KMP of the Group is as follows:

	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
31 July 2011 GHATTAS Nicolas (Ex Director)	-	-	-	-	-	-	-	-
31 July 2010 GHATTAS Nicolas (Ex Director)	1,000,000	-	-	(1,000,000)	-	-	-	-
	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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KMP Shareholdings

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

31 July 2011	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
GOODEY Stephen Donald Alfred (Managing Director)	-	-	-	18,299,034	18,299,034
McGIBBON Christopher (General Manager - shared services)	3,070,000	-	-	-	3,070,000
	<u>3,070,000</u>	<u>-</u>	<u>-</u>	<u>18,299,034</u>	<u>21,369,034</u>
31 July 2010	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
McGIBBON Christopher (General Manager - shared services)	-	-	-	3,070,000	3,070,000
GHATTAS Nicolas (Ex Director)	1,275,000	-	-	-	1,275,000
	<u>1,275,000</u>	<u>-</u>	<u>-</u>	<u>3,070,000</u>	<u>4,345,000</u>

Other KMP Transactions

For interests in ordinary shares held by KMP related entities refer to the Directors' Report.

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

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

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

Note 6 Auditors' Remuneration

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	30,000	25,000	-	-
— taxation services provided by related practice of auditor	11,860	5,469	-	-

All amounts payable to the auditors of the Company were paid by a Group subsidiary.

Note 7 Earnings per Share

	Consolidated Group	
	2011	2010
	\$	\$
(a) Reconciliation of earnings to profit or loss		
Profit	(408,381)	(2,718,362)
Earnings used to calculate basic EPS	<u>(408,381)</u>	<u>(2,718,362)</u>
Earnings used in the calculation of dilutive EPS	<u>(408,381)</u>	<u>(2,718,362)</u>
(b) Reconciliation of earnings to profit or loss from continuing operations		
Profit from continuing operations	(408,381)	(2,718,362)
Earnings used to calculate basic EPS from continuing operations	<u>(408,381)</u>	<u>(2,718,362)</u>
Earnings used in the calculation of dilutive EPS from continuing operations	<u>(408,381)</u>	<u>(2,718,362)</u>
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No. 451,656,531	No. 166,695,773
Weighted average number of dilutive options outstanding	250,000	1,000,000
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	<u>451,906,531</u>	<u>167,695,773</u>

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Note 8 Cash and Cash Equivalents

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
Cash at bank and in hand	28	158,533	354,136	7,153	50,991
		<u>158,533</u>	<u>354,136</u>	<u>7,153</u>	<u>50,991</u>

Reconciliation of cash

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

Cash and cash equivalents	158,533	354,136	7,153	50,991
	<u>158,533</u>	<u>354,136</u>	<u>7,153</u>	<u>50,991</u>

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

Note 9 Trade and Other Receivables

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
CURRENT					
Trade receivables	9d	3,815,172	989,251	11,905	216,174
Provision for impairment	9c(i)	(9,199)	(39,038)	(1,240)	(39,038)
Provision for rebates, incentives, and discounts		(817,317)	-	-	-
		<u>2,988,656</u>	<u>950,213</u>	<u>10,665</u>	<u>177,136</u>
Amounts receivable from:					
— wholly-owned subsidiaries		-	-	2,936,226	2,828,222
Total current trade and other receivables		<u>2,988,656</u>	<u>950,213</u>	<u>2,946,891</u>	<u>3,005,358</u>

(a) Provision For Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 60-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

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

	Note	Opening Balance 01.08.09	Charge for the Year	Amounts Written Off	Closing Balance 31.07.10
Consolidated Group		\$	\$	\$	\$
(i) Current trade receivables		21,188	17,840	-	39,038
		<u>21,188</u>	<u>17,840</u>	<u>-</u>	<u>39,038</u>
		Opening Balance 01.08.10	Charge for the Year	Amounts Written Off	Closing Balance 31.07.11
Consolidated Group		\$	\$	\$	\$
(i) Current trade receivables		39,038	-	29,839	9,199
		<u>39,038</u>	<u>-</u>	<u>29,839</u>	<u>9,199</u>

Credit risk

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties other than those receivables specifically provided for and mentioned within Note 9. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

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

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

Consolidated Group	Gross Amount \$	Past due and Impaired \$	Past due but not impaired (days overdue)				Within initial trade terms \$
			<30	31-60	61-90	>90	
			\$	\$	\$	\$	
2011							
Trade and term receivables	3,815,172	(9,199)	1,208,234	1,052,251	302,642	14,718	1,239,329
Total	<u>3,815,172</u>	<u>(9,199)</u>	<u>1,208,234</u>	<u>1,052,251</u>	<u>302,642</u>	<u>14,718</u>	<u>1,239,329</u>
Consolidated Group	Gross Amount \$	Past due and Impaired \$	Past due but not impaired (days overdue)				Within initial trade terms \$
			<30	31-60	61-90	>90	
			\$	\$	\$	\$	
2010							
Trade and term receivables	989,251	(39,038)	154,859	69,785	55,990	140,944	567,673
Total	<u>989,251</u>	<u>(39,038)</u>	<u>154,859</u>	<u>69,785</u>	<u>55,990</u>	<u>140,944</u>	<u>567,673</u>

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Parent Entity	Gross Amount \$	Past due and impaired \$	Past due but not impaired (days overdue)				Within initial trade terms \$
			<30 \$	31-60 \$	61-90 \$	>90 \$	
2011							
Trade and term receivables	11,905	(1,240)	-	-	-	-	11,905
Total	11,905	(1,240)	-	-	-	-	11,905

Parent Entity	Gross Amount \$	Past due and impaired \$	Past due but not impaired (days overdue)				Within initial trade terms \$
			<30 \$	31-60 \$	61-90 \$	>90 \$	
2010							
Trade and term receivables	216,174	(39,038)	22,971	21,130	11,892	110,783	49,398
Total	216,174	(39,038)	22,971	21,130	11,892	110,783	49,398

The provision is provided for past due and impaired amount and yet to be written off.

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

	Note	Consolidated Group		Parent Entity	
		2011 \$	2010 \$	2011 \$	2010 \$
(d) Financial Assets Classified as Loans and Receivables					
Trade and other Receivables					
— Total current		2,988,658	950,213	2,946,891	3,005,358
Financial assets	28	2,988,658	950,213	2,946,891	3,005,358

(e) Collateral Pledged

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

Note 10 Inventories

	Note	Consolidated Group		Parent Entity	
		2011 \$	2010 \$	2011 \$	2010 \$
CURRENT					
At lower of cost or net realisable value:					
Finished goods at cost		5,502,633	881,409	-	110,000
Provision for slow moving/ obsolete stock		(486,691)	-	-	-
		5,015,942	881,409	-	110,000

Note 11 Other Financial Assets

	Note	Consolidated Group		Parent Entity	
		2011 \$	2010 \$	2011 \$	2010 \$
NON-CURRENT					
Other investments	11(a)	-	-	4,355,362	805
Total non-current assets		-	-	4,355,362	805
(a) Other investments					
NON CURRENT					
Shares in subsidiaries		-	-	4,355,362	805
		-	-	4,355,362	805

Note 12 Controlled Entities

(a) Controlled Entities Consolidated

Subsidiaries of Heritage Brands Limited :	Country of Incorporation	Percentage Owned (%)*	
		2011	2010
Heritage Brands (Australia) Pty Ltd	Australia	100%	0%
Innoxia Group Pty Ltd	Australia	100%	100%
Innoxia Holdings Pty Ltd	Australia	100%	100%
Innoxia Marks Pty Ltd	Australia	100%	100%
Incolabs Pty Ltd	Australia	100%	100%
Soda Brands (NZ) Limited	New Zealand	100%	100%
Soda Brands (UK) Limited	United Kingdom	100%	100%
SO Distributions Pty Ltd **	Australia	0%	100%
Salon Only Pty Ltd **	Australia	0%	100%
Kisland Pty Ltd **	Australia	0%	100%

* Percentage of voting power is in proportion to ownership

** Deregistration of non-operating entities

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(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		4,355,256
		<u>4,355,256</u>
Loss:		
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)	2,852,210	2,852,210
Payables	(3,978,463)	(3,978,463)
Loans & borrowings	(2,618,865)	(2,618,865)
Deferred tax liabilities	(22,881)	(22,881)
Provision for employees benefits	(334,318)	(334,318)
Identifiable assets acquired and liabilities assumed	<u>3,307,930</u>	<u>3,307,930</u>
Goodwill (i)		<u>1,047,328</u>

- i. The directors believe the receivables are fully recoverable and no provision for impairment is required.
- ii. The goodwill is attributable to the profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Heritage Brands (Australia) Pty Ltd (formerly: Creative Brands Pty Ltd).
No amount of the goodwill is deductible for tax purposes.

Note 13 Property, Plant and Equipment

	Consolidated Group		Parent Entity	
	2011 \$	2010 \$	2011 \$	2010 \$
PLANT AND EQUIPMENT				
Plant and equipment:				
At cost	5,384,615	1,262,618	-	441,958
Accumulated depreciation	(4,502,944)	(814,067)	-	(415,876)
	<u>881,671</u>	<u>448,551</u>	<u>-</u>	<u>28,082</u>
Leasehold Improvements				
At cost	44,675	-	-	-
Accumulated amortisation	(41,125)	-	-	-
Total Leasehold Improvements	<u>3,550</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total plant and equipment	<u>885,221</u>	<u>448,551</u>	<u>-</u>	<u>28,082</u>

(a) Movements in Carrying Amounts

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

	Leasehold Improvements \$	Plant and Equipment \$	Total \$
Consolidated Group:			
Balance at 1 August 2009		58,349	58,349
Additions		820,469	820,469
Depreciation expense		(430,287)	(430,287)
Balance at 31 July 2010		<u>448,551</u>	<u>448,551</u>
Additions	44,675	4,121,897	4,166,572
Depreciation expense	(41,125)	(3,688,877)	(3,730,002)
Balance at 31 July 2011	<u>3,550</u>	<u>881,671</u>	<u>885,221</u>
Parent Entity:			
Balance at 1 August 2009		58,349	58,349
Disposals		(171)	(171)
Depreciation expense		(32,096)	(32,096)
Balance at 31 July 2010		<u>26,082</u>	<u>26,082</u>
Disposals		(26,082)	(26,082)
Balance at 31 July 2011		<u>-</u>	<u>-</u>

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Note 14 Intangible Assets

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Goodwill				
Cost	2,596,828	1,549,502	-	-
Net carrying value	2,596,828	1,549,502	-	-
Trademarks and licences				
Cost	2,588,644	-	-	-
Net carrying value	2,588,644	-	-	-
Total intangibles	5,185,472	1,549,502	-	-

Consolidated Group:

	Goodwill	Trademarks & Licences
	\$	\$
Year ended 31 July 2010		
Balance at the beginning of year	-	-
Additions	1,549,502	-
	1,549,502	-
Year ended 31 July 2011		
Balance at the beginning of year	1,549,502	-
Additions	1,047,326	2,588,644
Closing value at 31 July 2011	2,596,828	2,588,644

Intangible assets, other than goodwill, have finite useful lives. However, no amortisation expenses are provided in the statement of comprehensive income. Goodwill has an infinite life.

Impairment disclosures

Goodwill is allocated to cash-generating units (brands) which are based on the Group's reporting segments

	2011	2010
	\$	\$
Distribution segment	2,596,828	1,549,502
Total	2,596,828	1,549,502

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 10-year period with the period extending beyond five years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of 10-year government bonds at the beginning of the budget period.

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

	Growth Rate	Discount Rate
Distribution segment	3%	10 year government bonds yield rate

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

Note 15 Other Assets

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
CURRENT				
Prepayments	163,265	129,997	-	11,447
Other assets	11,273	3,134	406	-
	174,538	133,131	406	11,447

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Note 16 Trade and Other Payables

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
CURRENT					
Unsecured liabilities					
Trade payables		2,984,705	1,058,684	-	261,182
Sundry payables and accrued expenses		413,380	1,373,906	5	225,330
Amounts payable to:					
— other related parties	27(i)	-	6,540	-	-
— Employees benefits		248,407	213,652	-	-
		<u>3,646,492</u>	<u>2,652,782</u>	<u>5</u>	<u>486,512</u>
	Note	Consolidated Group	Parent Entity		
		2011	2010	2011	2010
		\$	\$	\$	\$
(a) Financial liabilities at amortised cost classified as trade and other payables					
Trade and other payables					
— Total current		3,646,492	2,652,782	5	486,512
		<u>3,646,492</u>	<u>2,652,782</u>	<u>5</u>	<u>486,512</u>
Less annual leave entitlements		(248,407)	(213,652)	-	-
Financial liabilities as trade and other payables	28	<u>3,398,085</u>	<u>2,439,130</u>	<u>5</u>	<u>486,512</u>

Note 17 Borrowings

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
CURRENT					
Lease liability	21	78,582	-	-	-
Related companies		-	-	256,645	-
		<u>78,582</u>	<u>-</u>	<u>256,645</u>	<u>-</u>
Secured liabilities					
Debtor finance - Scottish Pacific Business Finance Pty Ltd	17a,c	2,009,886	-	-	-
		<u>2,009,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current borrowings		<u>2,088,268</u>	<u>-</u>	<u>256,645</u>	<u>-</u>
NON-CURRENT					
Major shareholder (Maximize Equity Pty Ltd)		949,431	385,000	-	-
Major shareholder (Soul Private Equity Ltd)		1,016,282	385,000	-	-
Major shareholder (Rawfo International Inc)		1,538,000	-	-	-
Major shareholder (Others)		635,033	-	-	-
Total non-current borrowings		<u>4,138,746</u>	<u>770,000</u>	<u>-</u>	<u>-</u>
Total borrowings	28	<u>6,227,014</u>	<u>770,000</u>	<u>256,645</u>	<u>-</u>
		Consolidated Group	Parent Entity		
		2011	2010	2011	2010
		\$	\$	\$	\$
(a) Total current and non-current secured liabilities:					
Debtor finance - Scottish Pacific Business Finance Pty Ltd		2,009,886	-	-	-
Related entities (Major shareholders)		4,138,746	770,000	-	-
		<u>6,148,432</u>	<u>770,000</u>	<u>-</u>	<u>-</u>
(b) The carrying amounts of non-current assets pledged as security are:					
Fixed charge over fixed assets		885,221	448,551	-	26,082
		<u>885,221</u>	<u>448,551</u>	<u>-</u>	<u>26,082</u>

(c) Collateral provided

Financial assets that have been pledged as part of the total collateral for the benefit of secured debt are as follows:-

Lease liabilities are secured by the underlying leased assets.

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

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
Cash and cash equivalents	8	158,533	354,138	7,153	50,991
Trade receivables	9	2,088,856	950,213	10,665	177,136
Total financial assets pledged		<u>3,147,189</u>	<u>1,304,349</u>	<u>17,818</u>	<u>228,127</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 Scottish Pacific Business Finance loans carries a current variable rate of interest @ 12% per annum.

ii) The shareholders' loans are secured by first ranking fixed and floating charge over assets of Heritage Brands Limited, Innoxia Group Pty Ltd, Innoxia Holdings Pty Ltd, Innoxia Marks Pty Ltd and Incolabs Pty Ltd carrying a fixed rate of interest @ 10% per annum.

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Note 18 Tax

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

- temporary differences \$157,244 (2010: \$353,274)

- tax losses: operating losses \$2,267,560 (2010: \$1,715,483)

The recoverability of deferred tax assets and deferred tax liabilities transferred from Heritage Brands (Australia) Pty Ltd (formerly: Creative Brands Pty Ltd) is recognised at the transferred cost. However, after the tax consolidation entries are available, this amount may change.

Note 19 Provisions

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
CURRENT				
Short-term Employee Benefits				
Opening balance at 1 August 2010	7,246	-	-	-
Additional provisions	-	7,246	-	-
Balance at 31 July 2011	7,246	7,246	-	-

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
NON CURRENT				
Long-term Employee Benefits				
Opening balance at 1 August 2010	201,093	-	-	-
Additional provisions	34,504	201,093	-	-
Balance at 31 July 2011	235,597	201,093	-	-

Analysis of Total Provisions

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current	7,246	7,246	-	-
Non-current	235,597	201,093	-	-
	242,843	208,339	-	-

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.

Note 20 Issued Capital

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
457,622,635 (2010: 239,859,825) fully paid ordinary shares	16,102,935	11,747,678	16,102,935	11,747,678
	16,102,935	11,747,678	16,102,935	11,747,678

(a) Ordinary Shares

At the beginning of the reporting period

Shares issued during the year

— 30/10/2009

— 16/12/2009

— 6/08/2010

At the end of the reporting period

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
No.	No.	No.	No.	No.
239,859,825	46,156,208	239,859,825	46,156,208	
-	570,000	-	570,000	
-	193,133,617	-	193,133,617	
217,762,810	-	217,762,810	-	
457,622,635	239,859,825	457,622,635	239,859,825	

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

(b) Options

(i) For information relating to the Heritage Brands Limited employee option plan, which has now ceased, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end. Refer to Note 25: Share-based Payments.

(ii) For information relating to share options issued to key management personnel during the financial year. Refer to Note 25: Share-based Payments.

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(c) Capital Management

Management control the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

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

There are no externally imposed capital requirements.

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

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's gearing ratio remains below 100%. The gearing ratios for the year ended 31 July 2011 and 31 July 2010 are as follows:

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
Total borrowings	16, 17	\$ 8,873,506	\$ 3,422,782	\$ 256,650	\$ 486,512
Less cash and cash equivalents	8	(158,533)	(354,130)	(7,153)	(50,991)
Net debt		8,714,973	3,068,646	249,497	435,521
Total equity		4,632,698	685,821	7,053,162	2,718,171
Total capital		14,347,671	3,754,467	7,302,659	3,153,692
Gearing ratio		68%	82%	3%	14%

Note 21 Capital and Leasing Commitments

	Note	Consolidated Group		Parent Entity	
		2011	2010	2011	2010
(a) Finance Lease Commitments		\$	\$	\$	\$
Payable — minimum lease payments					
— not later than 12 months		78,582	-	-	-
Present value of minimum lease payments	17	78,582	-	-	-
(b) Operating Lease Commitments					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		363,621	-	-	-
		363,621	-	-	-

The property lease is a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 4% per annum. The Group may exercise the second option to renew the lease at the end of first option of two-year term for an additional term of two years on 15 April 2012. The lease allows for subletting of all lease areas.

Note 22 Contingent Liabilities and Contingent Assets

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
Estimates of the potential financial effect of contingent liabilities that may become payable:	\$	\$	\$	\$
At balance date the Company had no contingent liabilities or contingent assets.	-	157,017	-	157,017

Note 23 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 in determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the 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;
- the type or class of customer for the products or service; and
- the distribution method.

Types of products and services by segment

- (i) Distribution

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The distribution segment distributes Heritage Brands Limited's stock items both domestically and internationally.

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 to those adopted in the annual financial statements of the 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 Group's financial statements.

Corporate charges are allocated to reporting segments based on the segment's overall proportion of revenue generation within the 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.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If intersegment 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:

- Net gains on disposal of available-for-sale investments
- Impairment of assets and other non-recurring items of revenue or expense
- Income tax expense
- Deferred tax assets and liabilities
- Current tax liabilities
- Other financial liabilities
- Intangible assets

(i) Segment performance

	Wholesale Distribution and Sales	Total
31 July 2011	\$	\$
REVENUE		
External sales	24,638,600	24,638,600
Interest revenue	14,156	14,156
Total segment revenue	<u>24,652,756</u>	<u>24,652,756</u>
Reconciliation of segment revenue to Group revenue		
Other revenue		140,603
Total Group revenue		<u>24,793,359</u>
Segment net profit from continuing operations before tax	<u>(408,381)</u>	<u>(408,381)</u>
Net profit before tax from continuing operations		<u>(408,381)</u>
	Wholesale Distribution and Sales	Total
31 July 2010	\$	\$
REVENUE		
External sales	7,038,892	7,038,892
Interest revenue	2,724	2,724
Total segment revenue	<u>7,041,416</u>	<u>7,041,416</u>
Reconciliation of segment revenue to Group revenue		
Other revenue		52,924
Total Group revenue		<u>7,094,340</u>
Segment net profit from continuing operations before tax	<u>(2,718,382)</u>	<u>(2,718,382)</u>
Reconciliation of segment result to Group net profit/loss before tax		
Net profit before tax from continuing operations		<u>(2,718,382)</u>

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(ii) Segment assets

	Wholesale Distribution and Sales \$	Total \$
31 July 2011		
Segment assets		14,771,928
Segment asset for the period:		
— segment asset	23,558,091	23,558,091
	<u>23,558,091</u>	<u>23,558,091</u>
Reconciliation of segment assets to Group assets		
Intersegment eliminations		(8,786,163)
Total Group assets		<u>14,771,928</u>
31 July 2010		
Segment assets		4,318,942
Segment asset increases for the period:		
— segment asset	3,247,776	3,247,776
	<u>3,247,776</u>	<u>3,247,776</u>
Reconciliation of segment assets to Group assets		
Intersegment increase		1,089,186
Total Group assets		<u>4,318,942</u>

(iii) Segment liabilities

	Wholesale Distribution and Sales \$	Total \$
31 July 2011		
Segment liabilities	18,239,826	18,239,826
Reconciliation of segment liabilities to Group liabilities		
Intersegment eliminations		(6,100,586)
Total Group liabilities		<u>10,139,230</u>
31 July 2010		
Segment liabilities	8,912,873	8,912,873
Reconciliation of segment liabilities to Group liabilities		
Intersegment eliminations		(5,281,552)
Total Group liabilities		<u>3,631,121</u>

(iv) Assets by geographical region

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

	31 July 2011 \$	31 July 2010 \$
Australia	14,771,925	4,316,939
New Zealand	1	1
United Kingdom	2	2
Total Assets	<u>14,771,928</u>	<u>4,318,942</u>

(v) Major customers

The Group has a number of customers to whom it provides both products and services.

Note 24 Cash Flow Information

	Consolidated Group 2011 \$	2010 \$	Parent Entity 2011 \$	2010 \$
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax				
Profit after income tax	(408,381)	(2,718,362)	(20,267)	(827,890)
Non-cash flows in profit				
Depreciation	665,349	183,483	-	32,096
Net (gain)/loss on disposal of property, plant and equipment	44,068	-	26,781	-
(Increase)/decrease in trade and term receivables	1,126,530	(663,257)	160,471	161,648
(Increase)/decrease in other assets	88,145	(70,635)	11,448	51,048
(Increase)/decrease in inventories	(1,399,727)	(385,032)	110,000	511,313
Increase/(decrease) in trade payables and accruals	(3,319,070)	(223,017)	(486,912)	(285,202)
Increase/(decrease) in provisions	34,504	208,339	-	(14,079)
Cash flow from operations	<u>(3,188,582)</u>	<u>(3,688,501)</u>	<u>(192,479)</u>	<u>(371,666)</u>

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(b) Acquisition of Entities

During the year a further 100% ownership interest in Heritage Brands (Australia) Pty Ltd (formerly: Creative Brands Pty Ltd) was acquired. No cash was paid by the group for this acquisition:

Purchase consideration

Consisting of:

--- Cash consideration

Total consideration

-	1	-	-
-	1	-	-
-	1	-	-

Assets and liabilities held at acquisition date:

Cash

Receivables

Inventories

Property, plant and equipment

Payables

-	788,389	-	-
-	2,113,444	-	-
-	1,438,487	-	-
-	572,234	-	-
-	(6,462,055)	-	-
-	(1,549,501)	-	-
-	1,549,502	-	-
-	-	-	-

Goodwill on consolidation

The goodwill is attributable to the profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of Innova Group Pty Ltd. Information regarding the acquisitions, including profit since acquisition, is disclosed at Note 12.

Note 25 Share-based Payments

- (i) On 01 December 2006, 1,750,000 share options were granted to directors to take up ordinary shares at an exercise price of 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.

A summary of the movements of all company options issued is as follows:	Consolidated Group		Parent Entity	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Options outstanding as at 31 July	1,750,000	25c	1,750,000	25c
Forfeited/ cancelled	(1,500,000)		(1,500,000)	
Options outstanding as at 31 July	250,000		250,000	
Options exercisable as at 31 July 2011:	250,000		250,000	
Options exercisable as at 31 July 2010:	250,000		250,000	

Included under employee benefits expense in the statement of comprehensive income is \$nil which relates to equity settled share based payment transactions (2010: nil), since the exercise price of options is higher than the quoted share price

Note 26 Events After the Reporting Period

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

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Note 27 Related Party Transactions

	Consolidated Group		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
1 Other Related Parties				
Cash loan from major shareholder - Maximize Equity Pty Ltd (MEPL)	949,431	385,000	-	-
Cash loan from major shareholder - Soul Private Equity Ltd (SPEL)	1,016,282	385,000	-	-
Cash loan from major shareholder - Rawlo International Inc	1,538,000	-	-	-
Cash loan from major shareholder - Stephen Mason	220,000	-	-	-
Cash loan from major shareholder - Steven O'Neill	103,122	-	-	-
Cash loan from major shareholder - Chris McGibbon	7,000	-	-	-
Cash loan from major shareholder - PJT Holdings Pty Ltd	100,497	-	-	-
Cash loan from major shareholder - S Goodey Pty Ltd	103,917	-	-	-
Cash loan from major shareholder - JKL Developments Pty Ltd	100,497	-	-	-
Interest paid/payable on cash loan provided by Maximize Equity Pty Ltd (MEPL)	64,449	47,470	-	-
Interest paid/payable on cash loan provided by Soul Private Equity Ltd (SPEL)	68,173	48,138	-	-
Interest paid/payable on cash loan provided by Rawlo International Inc	129,131	-	-	-
Interest paid/payable on cash loan provided by Stephen Mason	14,482	-	-	-
Interest paid/payable on cash loan provided by Steven O'Neill	4,794	-	-	-
Interest paid/payable on cash loan provided by Chris McGibbon	666	-	-	-
Interest paid/payable on cash loan provided by PJT Holdings Pty Ltd	4,601	-	-	-
Interest paid/payable on cash loan provided by S Goodey Pty Ltd	4,732	-	-	-
Interest paid/payable on cash loan provided by JKL Developments Pty Ltd	4,601	-	-	-
Fees / salaries (inclusive of all benefits & superannuation) paid to directors	211,845	78,843	-	-
Management Fees paid/ payable	66,434	189,701	-	-
Management Fees paid/ payable to a director related entity for shared services	398,000	-	-	-
Management Fees received/ receivable from a director related entity for shared services	168,689	-	-	-

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Note 28 Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries, bills, and leases.

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

	Note	Consolidated Group		Parent Entity	
		2011 \$	2010 \$	2011 \$	2010 \$
Financial Assets					
Cash and cash equivalents	8	158,533	354,136	7,153	50,991
Loans and receivables	9c	2,088,656	950,213	2,046,891	3,005,358
Total Financial Assets		3,147,189	1,304,349	2,054,044	3,056,349
Financial Liabilities					
Financial liabilities at amortised cost					
— Trade and other payables	16	3,398,085	2,439,130	5	486,512
— Borrowings	17	6,227,014	770,000	256,645	-
Total Financial Liabilities		9,625,099	3,209,130	256,650	486,512

Financial Risk Management Policies

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

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

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and foreign currency risk.

a. Credit risk

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

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

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

Credit Risk Exposures

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

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographic basis, the Group has significant credit risk exposures to Australia given the substantial operations in those regions. Details with respect to credit risk of Trade and Other Receivables is provided in Note 9.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 9.

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

	Note	Consolidated Group		Parent Entity	
		2011 \$	2010 \$	2011 \$	2010 \$
Cash and cash equivalents					
- AA Rated		158,533	354,136	7,153	50,991
	8	158,533	354,136	7,153	50,991

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b. Liquidity risk

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

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

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

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

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 years		Over 5 years		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Consolidated Group	\$	\$	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment								
Trade and other payables (excl. est. annual leave)	3,646,492	2,652,782	-	-	-	-	3,646,492	2,652,782
Amounts payable to related parties	-	-	4,138,746	770,000	-	-	4,138,746	770,000
Financial lease liabilities	78,582	-	-	-	-	-	78,582	-
Total contractual outflows	3,725,074	2,652,782	4,138,746	770,000	-	-	7,863,820	3,422,782
Less bank overdrafts							-	-
Total expected outflows	3,725,074	2,652,782	4,138,746	770,000	-	-	7,863,820	3,422,782
	Within 1 Year		1 to 5 years		Over 5 years		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Consolidated Group	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets - cash flows realisable								
Cash and cash equivalents	158,533	354,136	-	-	-	-	158,533	354,136
Trade, term and loans receivables	2,988,656	950,213	-	-	-	-	2,988,656	950,213
Inventory	5,015,942	881,409	-	-	-	-	5,015,942	881,409
Total anticipated inflows	8,163,131	2,185,758	-	-	-	-	8,163,131	2,185,758
Net (outflow) / inflow on financial instruments	4,438,057	(467,024)	(4,138,746)	(770,000)	-	-	299,311	(1,237,024)

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Financial liability maturity analysis

	Within 1 Year		1 to 5 years		Over 5 years		Total contractual cash flow	
	2011	2010	2011	2010	2011	2010	2011	2010
Parent Entity	\$	\$	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment								
Trade and other payables (excl. est. annual leave)	256,650	486,512					256,650	486,512
Total contractual outflows	256,650	486,512	-	-	-	-	256,650	486,512
Less bank overdrafts							-	-
Total expected outflows	256,650	486,512	-	-	-	-	256,650	486,512

	Within 1 Year		1 to 5 years		Over 5 years		Total contractual cash flow	
	2011	2010	2011	2010	2011	2010	2011	2010
Parent Entity	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets - cash flows realisable								
Cash and cash equivalents	7,153	50,991	-	-	-	-	7,153	50,991
Trade, term and loans receivables	2,947,297	3,016,805	-	-	-	-	2,947,297	3,016,805
Inventory	-	110,000	-	-	-	-	-	110,000
Total anticipated inflows	2,954,450	3,177,796	-	-	-	-	2,954,450	3,177,796
Net (outflow) / inflow on financial instruments	2,697,800	2,691,284	-	-	-	-	2,697,800	2,691,284

c. Market Risk

i. Interest rate risk

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

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group has borrowings from related entities/ shareholders on fixed rates of interest and not exposed to any material interest rate risk. The Group is only exposed to interest rate risk on bank facilities.

ii. Foreign exchange risk

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

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations. The foreign currency risk in the books of the parent is considered immaterial and is therefore not shown.

2011

Consolidated Group
Functional currency of entity
Australian Dollars
New Zealand Dollars
Statement of financial position exposure

Net financial assets/(liabilities) in AUD \$				
NZD	AUD	GBP	Other	Total AUD
	4,632,697			4,632,697
1				1
1	4,632,697	-	-	4,632,698

2010

Consolidated Group
Functional currency of entity
Australian Dollars
New Zealand Dollars
Statement of financial position exposure

Net financial assets/(liabilities) in AUD \$				
NZD	AUD	GBP	Other	Total AUD
	685,820			685,820
1				1
1	685,820	-	-	685,821

iii. Price risk

The Group is exposed to price risk in respect of packaging, raw material and finished goods prices.

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Sensitivity Analysis

The following table illustrates the estimated sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Consolidated Group		Parent Entity	
Year ended 31 July 2011	Profit	Equity	Profit	Equity
	\$	\$	\$	\$
+/- 1% in interest rates	70,000	70,000	2,500	2,500
+/- 10% in \$A/\$US	120,000	120,000	4,250	4,250
Year ended 31 July 2010	Profit	Equity	Profit	Equity
	\$	\$	\$	\$
+/- 1% in interest rates	20,000	20,000	10,000	10,000
+/- 10% in \$A/\$US	50,000	50,000	25,000	25,000

Net Fair Values

Fair value estimation

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

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

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

	Footnote	2011		2010	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
		\$	\$	\$	\$
Consolidated Group					
Financial assets					
Cash and cash equivalents	(i)	158,533	158,533	354,136	354,136
Trade and other receivables	(i)	2,986,656	2,986,656	950,213	950,213
Total financial assets		3,147,189	3,147,189	1,304,349	1,304,349
Financial liabilities					
Trade and other payables	(i)	3,398,085	3,398,085	2,439,130	2,439,130
Lease liability	(iii)	78,582	78,582	-	-
Secured debts	(iii)	6,148,432	6,148,432	770,000	770,000
Total financial liabilities		9,625,099	9,625,099	3,209,130	3,209,130
Parent Entity					
Financial assets					
Cash and cash equivalents	(i)	7,153	7,153	50,991	50,991
Trade and other receivables	(i)	10,665	10,665	177,136	177,136
Loans and advances - related parties	(ii)	2,936,226	2,936,226	2,828,222	2,828,222
Total financial assets		2,954,044	2,954,044	3,056,349	3,056,349
Financial liabilities					
Trade and other payables	(i)	5	5	486,512	486,512
Total financial liabilities		5	5	486,512	486,512

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

- Cash and cash equivalents, trade and other receivables and trade and other payables are short term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables excludes amounts provided for annual leave, which is outside the scope of AASB 139.
- Discounted cash flow models are used to determine the fair values of loans and advances. Discount rates used on the calculations are based on interest rates existing at the end of the reporting period for similar types of loans and advances. Differences between fair values and carrying values largely represent movements in the effective interest rate determined on initial recognition and current market rates.
- Fair values are determined using a discounted cash flow model incorporating current commercial borrowing rates. The fair values of fixed rate bank debt will differ to the carrying values.

Note 29 Company Details

The registered office and the principal place of business of the company 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:

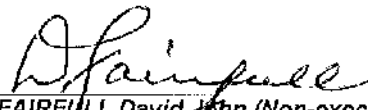
1. the financial statements and notes, as set out on pages 7 to 35, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 31 July 2011 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view; and
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The company and a wholly-owned subsidiary, Heritage Brands (Australia) Pty Ltd, have entered into a deed of cross guarantee under which the company and its subsidiary guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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 October 2011



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

Report on the Financial Report

We have audited the accompanying financial report of Heritage Brands Limited (the company) and Heritage Brands Limited and controlled entities (the consolidated entity), which comprises the statement of financial position as at 31 July 2011, the statement of comprehensive income, statement of changes in equity and 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 and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

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

Independence

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





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

Auditor's Opinion

In our opinion:

- a. the financial report of Heritage Brands Limited and Heritage Brands Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the company and consolidated entity's financial position as at 31 July 2011 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Going Concern Basis

Without qualification to the audit opinion expressed above, we draw attention to Note 1 in the financial statements, which states that to continue as a going concern the Group requires additional funding to be secured within the next year from sources including:

- * deferment of the repayment of existing borrowings from the major shareholders,
- * raising additional borrowings from major shareholders,
- * equity capital raising, and
- * the generation of sufficient funds from operating activities.

If the 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 July 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Heritage Brands Limited for the year ended 31 July 2011, complies with section 300A of the Corporations Act 2001.

Name of Firm: Rothsay Chartered Accountants

Rothsay
GR Swan

Name of Partner: Graham Swan

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

Dated this 14th day of October 2011

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under Professional
Standards Legislation

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

The following information is current as at 31 July 2011:

1. Shareholding

a. Distribution of Shareholders

Category (size of holding)	Number	
	Ordinary	Redeemable
1 – 1,000	-	-
1,001 – 5,000	2	-
5,001 – 10,000	90	-
10,001 – 100,000	121	-
100,001 – and over	52	-
	265	-

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

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

Shareholder	Number	
	Ordinary	Preference
Souls Private Equity Limited	114,962,106	-
Maximize Equity Pty Ltd	91,431,644	-
Rawio International Inc	80,671,614	-
Stephen Mason	63,895,060	-
JKL Developments Pty Ltd	18,299,034	-
Steven O'Neill	18,299,034	-
PJT Holdings Pty Ltd	18,299,034	-
S Goodey Pty Ltd	18,299,034	-

d. Voting Rights

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

Ordinary shares

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

e. 20 Largest Shareholders — Ordinary Shares

20 Largest Shareholders — Ordinary Shares		Number of Ordinary Fully Paid Shares	% Held of Issued Ordinary Capital
Name		Held	
1.	Souls Private Equity Limited	114,962,106	25.1%
2.	Maximize Equity Pty Ltd	91,431,644	20.0%
3.	Rawio International Inc	80,671,614	17.6%
4.	Stephen Mason	63,895,060	14.0%
5.	JKL Developments Pty Ltd	18,299,034	4.0%
6.	Steven O'Neill	18,299,034	4.0%
7.	PJT Holdings Pty Ltd	18,299,034	4.0%
8.	S Goodey Pty Ltd	18,299,034	4.0%
9.	Kistant Holdings Pty Ltd	11,369,060	2.5%
10.	Christopher McGibbon	3,070,000	0.7%
11.	Avenue Investments (Aust) Pty Ltd	1,275,000	0.3%
12.	STYLZ Franchising Pty Ltd	1,200,000	0.3%
13.	Hair Fx Australia Pty Ltd	723,405	0.2%
14.	D J Fairfull Pty Ltd	620,000	0.1%
15.	Chris Boffa Pty Ltd	548,108	0.1%
16.	Cordony Salons Pty Ltd	548,106	0.1%
17.	Cardony & Co Pty Ltd	548,108	0.1%
18.	Frank Boffa Pty Ltd	548,106	0.1%
19.	Herway Pty Ltd	548,108	0.1%
20.	Murang Pty Ltd	496,000	0.1%
		445,650,555	97.4%

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

2. The name of the company secretary is Christopher William McGibbon.
3. The address of the principal registered office in Australia is 30 Bando Road, Springvale, VIC 3171. Telephone 03 9574 2100.
4. Registers of securities are held at the following addresses
NSW Boardroom Pty Ltd, Level 7, 207 Kent Street, Sydney, NSW 2000
Victoria 30 Bando Road, Springvale, VIC 3171
5. **Stock Exchange Listing**
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the National Stock Exchange Limited.
6. **Unquoted Securities**
Options over Unissued Shares
A total of 250,000 options are on issue.