

Annual Report 2024



Heritage Brands Ltd
and Controlled Entities

ACN 081 149 635

Financial Statements
For the Year Ended 31 July 2024

Heritage Brands Ltd and Controlled Entities

ACN 081 149 635

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For the Year Ended 31 July 2024

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Heritage Brands Ltd and Controlled Entities

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Chairman's Report For the Year Ended 31 July 2024

Dear Shareholders,

Our results for the financial year reflect the challenges we have encountered in what has been a difficult economic climate. During 2024 we have implemented a turnaround strategy to change the dynamics at Heritage Brands. The business has been reset around key growth pillars as we aim to return the group to profitability. Since June the Group has seen improvement in its performance trajectory as it implements strategic initiatives designed to improve both top line sales and profitability.

Our FY2025 strategy is committed to leading the organisation in its recovery and future growth.

The strategy is built around increasing net distribution points, brand awareness and market share growth. Our plan is centred around growing our priority brands that compete in high growth categories. Heritage Brands has a great foundation of brands on which to build and we are focused on driving the success of these brands. Our long-term success depends upon expanding our customers base, engaging with reliable suppliers, and building a great team. Our retailers also bring innovation and new products to our customers, and we are excited to be able to provide a great platform for them to interact with our customers.

The Board believes that these objectives, and the initiatives that underpin them, are part of a clear plan to re-establish the business towards a sustainable EBITDA margin business and to deliver shareholder value.

The Board appointed Jim Filis as our new CEO in August 2023. Jim has led a review of the business and, in addition to stabilising the business, he has prioritised defining the change management required to re-engineer the business. Under Jim's guidance new executives, who have strong brand, channel and health and wellness experience, have joined the leadership team.

The Board is committed to leading the organisation in its recovery and to future growth.

Thank you for your continued support.

Maxim Krok

Chairman

Heritage Brands Ltd and Controlled Entities

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CEO's Report

For the Year Ended 31 July 2024

Dear Shareholders,

Heritage Brands (HB) is an iconic Australian Health and Wellness business with iconic brands, and I am pleased that after a challenging 12 months that for the last 8 weeks of 2024 the group has returned to growth. While it is still early days, it is pleasing to see the implementation of the strategic growth initiatives that were announced in November 2023 are starting to deliver positive momentum in our trading and financial performance. A significant driver of our growth strategy is expanding our physical distribution of our iconic brands. In the past 12 weeks, we've successfully increased our product range within our key retailers.

We play in a large addressable market of Health, Wellness and Beauty with enormous potential to grow our share in suncare, aromatherapy and the skin care market where we are currently underrepresented. We have opportunities to elevate our brands, Le Tan, Oil Garden and Australis with improved awareness. The focus on omnichannel and re-ignition of our socials has seen consumers increase purchases from both our online platforms or conversely in partnership with our retailers' making purchases in store.

The most exciting aspect of HB has been the transformation of our culture with a leadership team that is passionate and driven to achieve growth aspirations by increasing market share, growing EBITDA and most importantly improving returns to our shareholders.

We are confident that our refreshed strategy for future growth and delivering shareholder value has seen early positive momentum, 2025:

The Strategic Reset announced in November 2023 has seen an improvement in our Aromatherapy Brand Oil Garden, Sunscreen with Le Tan, and Skin Treatment for Skin Republic. The last quarter of 2024 has seen acceleration in Sales performance for Oil Garden and Skin Republic brands. Recent ranging wins of Le Tan in Woolworths and in Terry White Chemmart show the latent potential of our iconic brands and as we continue to pursue acceleration in distribution points, we will capture further economic value.

Positive progress in implementing the strategy announced in November 2023 is further highlighted by:

Improvement in sales trajectory in the last 8 weeks FY24 supported by changes in brand and customer priorities:

1. Total combined sales growth of 3.2% in the last two months of 2024.
2. **On track to achieve Gross Profit Margin improvement in FY25:**
 - Supplier transformation strategy has seen the appointment of new manufacturers to improve gross margin with reduced prices for goods and improved first to market innovation
 - **Channel mix improvement** driven by profitable pricing architecture and removal of Loyalty Spend & Earn in Q4 FY24

Continued success in 2025 will be centred on focussing on the 5 key pillars below;

- **Net Distribution gains** of our **core** and **NPD** into existing and new channels.
- **Build awareness** and **grow market share** of our core brands **Le Tan, Oil Garden, Australis, and Skin Republic.**
- **Acceleration** of **Omnichannel** initiatives leading more consumers online and into our customers stores.
- Expansion into **international markets** with **China** a key focus for our flagship brands including **Le Tan** and **In Essence.**
- **Optimisation** of investments **and Inventory** review to reduce complexity and **improve free cash flow.**

Jim Filis

Chief Executive Officer and Managing Director

Heritage Brands Ltd and Controlled Entities

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Directors' Report

31 July 2024

The Directors submit their report, together with the financial statements of the Group, being Heritage Brands Ltd and Controlled Entities (the Company) and its controlled entities, for the financial year ended 31 July 2024.

1. General information

Information on Directors

The names, qualifications, experience and special responsibilities of each person who has been a Director during the year and to the date of this report are:

KROK, Maxim	Non-Executive Chairman
Qualifications	BProc LLB
Experience	Entrepreneur and Investor with over 40 years' experience across a wide range of business sectors, including pharmaceuticals, cosmetics, FMCG and medical devices, both as an Executive and Non-Executive Director.
Special responsibilities	Chairman of the Board of Directors
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None
KAPLAN, Elliott	Non-Executive Director
Qualifications	B Acc, CA
Experience	Extensive board level experience in both private and public listed companies. His experience, from both an investor and investee perspective, spans a diverse range of industries including manufacturing, environmental, distribution and services. Mr Kaplan is the former CEO and MD of CVC Private Equity Limited and has served as a non-executive Director and Chairman of a number of unlisted companies and ASX listed companies.
Special responsibilities	Member of the Audit, Risk and Corporate Governance Committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None
MASON, Stephen	Non-Executive Director
Qualifications	LLB, BComm, DipCM, FCPA, FGIA, FCSA, JP
Experience	Former CEO of Creative Brands Pty Ltd and Finance Director of ASX-listed Lemarne Corporation Limited for over 12 years and Company Secretary for 22 years. Currently an executive director of the Australian Patients Association. Mr Mason has also served as a non-executive director of a number of unlisted companies and ASX listed companies.
Special responsibilities	Chair of the Audit, Risk and Corporate Governance Committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None

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Directors' Report

31 July 2024

1. General information (continued)

Information on Directors (continued)

MCCARTNEY, William	Non-Executive Director
Experience	Over 56 years' experience in the cosmetic fragrance, toiletry, food and flavour industries in Australia, South East Asia and China. Former MD and CEO of Bronson and Jacobs Group, Sunspirit Aromatherapy, Australian Plantations, Essential Oils of Tasmania, Bridestowe Estate, Kenkay Pharmaceuticals (for over 35 years) and former Non-Executive Director Leap Legal Software. Currently Group Director Business Development Bontoux SA.
Special responsibilities	Chair of the Remuneration Committee
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None
GENDIS, Constantinos	Managing Director and Chief Executive Officer (resigned 11 August 2023)
Qualifications	B. App. Sc, Grad Dip Marketing
Experience	Over 30 years' experience in the FMCG Industry both locally and abroad.
Special responsibilities	Managing Director
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None
FILIS, Dimitrios (Jim)	Managing Director and Chief Executive Officer (appointed 11 August 2023)
Qualifications	B. Commerce, CPA, Master of Business Administration
Experience	Over 28 years' experience in the FMCG Retail Industry.
Special responsibilities	Managing Director
Other current directorships in listed entities	None
Other directorships in listed entities held in the previous three years	None

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

Principal activities and significant changes in nature of activities

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

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

Directors' Report

31 July 2024

2. Operating results and review of operations for the year

Operating results

For the year ended 31 July 2024, the consolidated net loss after tax of the Group was \$7,090,897, after impairment of intangible assets of \$4,093,903, and loss on sale of goodwill of \$795,749. The Group's EBITDA (before abnormal items) was (\$1,014,768) for the year compared to \$242,072 the previous year.

Review of Group's operations

FY24 has been a year of transformation for Heritage Brands. After appointing a new CEO in August 2023, we have reset the leadership team and a refreshed strategy was announced in November 2023 to grow and maximise shareholder value. 2024 has seen Heritage Brands prioritise its focus on core brands and profitable customers, which included divesting Innoxia Marks Pty Ltd. Although we are pleased with the progress we have made, the 2024 financials are reflective of the transformation scale.

Review of the Group's financial performance;

- Net Revenue of \$40.6 million for the year down 10.6% against the prior corresponding period, reflecting the challenging trading conditions and cost of living pressures faced by consumers and a focus away from non – strategic brands.
- The adverse impact of cost-of-living pressures on consumer spending observed during the second half of calendar 2023 impacted our premium pure essential oil brand, In Essence. In addition, changed promotional activity in Grocery, impacted Le Tan in the self- tanning category as did the increased competitor activity in face- masks.
- Le Tan Suncare which is a key priority brand achieved growth of +39.1% in 2024.
- Internet Sales growth, +5.2% after a renewed focus on OMNI-Channel and the re-platforming of the Oil Garden and In Essence websites.
- International Sales \$3.6m lower by \$0.3m, impacted by lower sales in NZ.
- Advertising and Promotion \$3.2m, Employee Expenses \$7.6m and Other Expenses \$5.6m combined, came to \$16.5m, a decrease of \$1.2m in FY24.
- FY24 EBITDA before abnormal items was -\$1.0 million, down from \$242k in the prior corresponding period (pcp). This was largely impacted by sales volume decline in non – core brands and strategic reset to stop sales volume of loss-making promotions in Grocery and the FX impact of a weaker AUD/USD.
- The Group reported a Statutory Net loss after Tax (NPAT) of \$7.09 million. This was impacted by one off loss on sale of Innoxia Marks Pty Ltd, (\$0.8m) and Impairment of Intangible Assets of (\$4.0m).
- Inventory management delivered a 6% reduction as we exited unproductive ranges and aligned inventory holdings to our changed trading profile.

Directors' Report

31 July 2024

2. Operating results and review of operations for the year (continued)

Business Risks

The Directors consider the following to be the key material risks currently facing the Group:

- **Economy:** Consumer confidence and cost of living pressures.
- **Inflation:** Increasing global cost pressures and the Group's ability to mitigate through price rises.
- **Cyber Risk:** The Company takes a risk-based approach to review potential cyber security impacts including fraud, financial crime, data loss or loss of system availability. The Company is reliant on its Information Technology (IT) systems to transact with customers and connect with consumers. The inability to utilise or access our IT systems through a successful denial of service, ransomware or other form of attack could materially impact the Company's ability to transact and hence affect its earnings. The Company uses firewall monitoring software and anti-virus software to block potential cyber threats. Additionally, it has a network monitoring and alert tool that is designed to detect and signal unusual network behaviour. Ongoing internal staff training, external review and input are implemented to ensure the effectiveness of 'cyber' controls to meet ever evolving threats of this nature.
- **Competition Risk:** Given the Company's reliance on consumer spending, adverse changes to the general economic landscape in Australasia or consumer sentiment for the Company's products could impact its financial results. This risk is addressed through keeping abreast of consumer purchasing trends, such as the increase in on-line shopping, economic and consumer data/research, innovative product development and brand building.

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Directors' Report

31 July 2024

3. Financial review

A summary of the performance and position of the Group is shown below:

		2024	2023
Earnings			
Net Revenue	\$'000	40,630	45,485
EBITDA before abnormal items (a non-IFRS measure)	\$'000	(1,015)	242
Abnormal items	\$'000	(387)	(266)
Depreciation and amortisation expenses	\$'000	(832)	(775)
Finance expenses	\$'000	(905)	(1,075)
Loss on sale of trademarks	\$'000	(796)	-
Impairment of Intangible Assets	\$'000	(4,094)	-
Net Loss before tax	\$'000	(8,029)	(1,874)
Loss after tax for the year	\$'000	(7,091)	(1,303)
Financial Position			
Total Assets	\$'000	36,157	44,203
Total Liabilities	\$'000	21,439	24,464
Shareholders' Funds	\$'000	14,719	19,739
Key Ratios			
Earnings Per Share in Cents	Cents	(0.36)	(0.07)
Net Tangible Assets per Share in Cents	Cents	0.004	0.03

4. Other items

Significant changes in state of affairs

The Company undertook a 1 for 1 non renounceable rights issue raising \$2,101,250 before costs, resulting in the issue of 525,312,636 new shares.

Dividends paid or recommended

No dividends have been declared or paid during the year (2023: \$Nil)

Events after the reporting date

The Group has announced to the NSX on 23rd September 2024, that it is undertaking a 1 for 2 non-renounceable Rights Issue at a price of 0.4 cents per share, to raise the additional capital required by its bank financier in order to cure breaches of certain financial covenants caused by lower than expected earnings in FY24.

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Directors' Report
31 July 2024

4. Other items (continued)

Future developments and results

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

Environmental issues

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

Company secretary

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

Stephen Leslie Mason has been the Company secretary since 21 July 2022.

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:

	Directors* Meetings		Audit, Risk and Corporate Governance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
KROK, Maxim	13	13	-	-
KAPLAN, Elliott	13	11	2	2
MASON, Stephen	13	12	2	2
MCCARTNEY, William	13	12	-	-
FILIS, Dimitrios (Jim)	13	13	2	1

*There were no separate remuneration committee meetings during the year. Matters were discussed during the Board Meetings.

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Directors' Report

31 July 2024

4. Other items (continued)

Indemnification and insurance of officers and auditors

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

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

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of Heritage Brands Ltd and Controlled Entities.

Options

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

During the year ended 31 July 2024, no ordinary shares of Heritage Brands Ltd and Controlled Entities were issued on the exercise of options granted. No shares were issued during the year prior to the lapse of the options.

Non-audit services

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

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

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 31 July 2024:

	2024	2023
	\$	\$
Taxation Compliance Services	12,730	12,340

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the year ended 31 July 2024 has been received and can be found on page 19 of the financial report.

Directors' Report

31 July 2024

Remuneration report (audited)

Remuneration policy

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

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

- The remuneration policy has been developed by the Remuneration Committee and approved by the Board following professional advice from independent external consultants.
- All key management personnel receive a base salary (which is based on factors such as qualifications and experience), superannuation, fringe benefits, and performance incentives.
- Performance incentives are based on predetermined key performance indicators.
- Incentives paid in the form of options or rights are intended to align the interests of the KMP and the Group with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The Remuneration Committee reviews key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the law, which until 30 June 2024 was 11% and thereafter changed to 11.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

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

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

The Board's policy is to remunerate non-executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting, the current maximum is \$ 250,000 which was approved at the 2016 AGM.

Directors' Report

31 July 2024

Remuneration report (audited) (continued)

Relationship between remuneration policy and Company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and executives. Performance-based bonus based on key performance indicators aim to encourage the alignment of personal and shareholder interests.

Performance conditions linked to remuneration

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

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

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

Employment details of members of key management personnel

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group. The table also illustrates the proportion of remuneration that was performance based and the proportion of remuneration received in the form of options.

Service Agreements

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

All executive service agreements are for an unlimited duration. The agreements for executives (other than the Chief Executive Officer which requires six months' notice) may be terminated by giving between four and twelve weeks notice depending on the role (except in cases of termination for cause where termination is immediate).

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

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Directors' Report

31 July 2024

Remuneration report (audited) (continued)

Remuneration details for the year ended 31 July 2024

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

Table of benefits and payments

	Short Term				Post-employment	Long Term	
	Cash salary fees	Annual leave accrued	Secretarial Fees	Total	Superannuation	Long Service Leave accrued	
2024	\$	\$	\$	\$	\$	\$	\$
Directors							
KROK, Maxim	47,000	-	-	47,000	-	-	47,000
KAPLAN, Elliott	40,669	-	-	40,669	-	-	40,669
MASON, Stephen	40,669	-	36,000	76,669	-	-	76,669
MCCARTNEY, William	30,502	-	-	30,502	-	-	30,502
GENDIS, Constantinos	13,756	-	-	13,756	1,452	-	15,208
FILIS, Jim	338,434	12,092	-	350,526	37,368	7,041	394,935
Key Management Personnel							
RICHARDSON, Donna	200,131	6,767	-	206,898	22,099	3,561	232,558
	711,161	18,859	36,000	766,020	60,919	10,602	837,541

	Short Term				Post-employment	Long Term	
	Cash salary fees	Annual leave accrued	Secretarial Fees	Total	Superannuation	Long Service Leave accrued	
2023	\$	\$	\$	\$	\$	\$	\$
Directors							
KROK, Maxim	47,000	-	-	47,000	-	-	47,000
KAPLAN, Elliott	40,669	-	-	40,669	-	-	40,669
MASON, Stephen	40,670	-	36,000	76,670	-	-	76,670
MCCARTNEY, William	40,669	-	-	40,669	-	-	40,669
SMITH, Brent	23,724	-	-	23,724	-	-	23,724
GENDIS, Constantinos	392,412	(1,607)	-	390,805	29,551	6,417	426,773
Key Management Personnel							
FILIS, Jim	265,874	(5,731)	-	260,143	28,146	4,015	292,304
	851,018	(7,338)	36,000	879,680	57,697	10,432	947,809

Heritage Brands Ltd and Controlled Entities

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Directors' Report

31 July 2024

Remuneration report (audited) (continued)

Securities received that are not performance related

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

Cash performance-related bonuses

No Director or key management personnel received cash bonuses during the year due to the performance or service criteria not being met. No amounts vest in future financial years in respect of the bonus schemes for the current financial year.

Key management personnel shareholdings

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

	Balance at beginning of year	Other changes during the year	Balance at end of year
31 July 2024			
Directors			
KROK, Maxim	383,148,971	-	383,148,971
KAPLAN, Elliott	7,000,000	-	7,000,000
MASON, Stephen	163,895,060	62,500,000	226,395,060
MCCARTNEY, William	452,470,639	452,470,639	904,941,278
	<u>1,006,514,670</u>	<u>514,970,639</u>	<u>1,521,485,309</u>

	Balance at beginning of year	Other changes during the year	Balance at end of year
31 July 2023			
Directors			
KROK, Maxim	383,148,971	-	383,148,971
KAPLAN, Elliott	7,000,000	-	7,000,000
MASON, Stephen	163,895,060	-	163,895,060
MCCARTNEY, William	452,470,639	-	452,470,639
GENDIS, Constantinos	5,216,666	-	5,216,666
	<u>1,011,731,336</u>	<u>-</u>	<u>1,011,731,336</u>

Heritage Brands Ltd and Controlled Entities

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Directors' Report

31 July 2024


Remuneration report (audited) (continued)

KMP related party transactions

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

End of Audited Remuneration Report

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

Director: 
Maxim Krok

.....
KROK, Maxim

Dated: 24 September 2024

Heritage Brands Ltd and Controlled Entities

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Corporate Governance Statement

31 July 2024

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

The Group has been guided by the principles of corporate governance promoted by the National Stock Exchange ('NSX'). This statement outlines the main corporate governance practices followed by the Group, which takes into account the operational requirements of the Group. The Group's corporate governance framework includes a Board Charter and various policies, which are reviewed each year.

Role of the Board and Management

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

Board Size and Composition

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

Role of the Chairman

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

Board Meetings

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

Access to Information and Advice

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

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

- Audit, Risk and Corporate Governance Committee, and
- Remuneration Committee – convened as part of the Board Meeting.

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

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Corporate Governance Statement

31 July 2024

Risk Management

Approach to Risk Management

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

Risk Management Roles and Responsibilities

The Board is responsible for approving and reviewing the Group's risk management strategy and policy. The Chief Executive Officer ('CEO') and General Manager of Finance and Operations are responsible for implementing the Board's approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Group's activities.

Financial Reporting

The Board receives regular reports about the financial condition and operational results of the Group. The General Manager of Finance and Operations periodically provides formal statements to the Board and is responsible for ensuring that:

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

Internal Audit

There is no internal audit department. The assessment of the control system is undertaken by the CEO, the General Manager of Finance and Operations and the Audit, Risk and Corporate Governance Committee. The Board also assists where required in the review of the Internal Control System.

Code of Conduct

The Group has developed a Code of Conduct which deals with, amongst other areas, conflict of interest, personal gains and gifts, confidentiality, compliance with the law and policies and the work environment.

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

Trading in Company Securities

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

Heritage Brands Ltd and Controlled Entities

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Corporate Governance Statement

31 July 2024

Communication with Shareholders

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

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

Diversity Policy

The Group is committed to social inclusion and has a policy of employing the best individual for the position, irrespective of race, gender or creed.

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

To the directors of Heritage Brands Ltd:

As lead auditor of the audit of Heritage Brands Ltd for the year ended 31 July 2024, I declare that, to the best of my knowledge and belief, there have been:

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

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

In.Corp Audit & Assurance Pty Ltd



Daniel Dalla
Director

24 September 2024

In.Corp Audit & Assurance Pty Ltd
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Heritage Brands Ltd and Controlled Entities

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Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 31 July 2024

		2024	2023
	Note	\$	\$
Revenue	4	40,630,249	45,485,455
Other income	4	-	1,200
Costs of goods sold		(25,535,186)	(27,847,671)
Advertising and promotion		(3,250,900)	(3,980,786)
Depreciation and amortisation expense		(832,535)	(775,443)
Employee benefits expense		(7,619,808)	(8,206,399)
Finance expenses	5	(905,166)	(1,074,723)
Other expenses	5	(5,626,145)	(5,475,199)
Loss on sale of goodwill	12	(795,749)	-
Impairment of intangible assets	12	(4,093,903)	-
Loss before income tax		(8,029,143)	(1,873,566)
Income tax benefit	6	938,246	570,513
Loss for the year		(7,090,897)	(1,303,053)
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year		(7,090,897)	(1,303,053)
Earnings per share			
Basic earnings per share (cents)	18	(0.36)	(0.07)
Diluted earnings per share (cents)	18	(0.36)	(0.07)

Heritage Brands Ltd and Controlled Entities

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Statement of Financial Position

As At 31 July 2024

	Note	2024 \$	2023 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	94,226	1,174,795
Trade and other receivables	9	5,444,262	8,191,528
Inventories	10	9,830,195	10,408,007
TOTAL CURRENT ASSETS		15,368,683	19,774,330
NON-CURRENT ASSETS			
Plant and equipment	11	800,399	487,993
Right-of-use assets	11	-	438,163
Deferred tax assets	20	5,187,553	4,249,307
Intangible assets	12	14,800,548	19,253,136
TOTAL NON-CURRENT ASSETS		20,788,500	24,428,599
TOTAL ASSETS		36,157,183	44,202,929
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	8,111,957	10,809,738
Borrowings	15	9,949,724	8,357,367
Lease liabilities	13	-	460,144
Employee entitlements	16	376,737	723,835
TOTAL CURRENT LIABILITIES		18,438,418	20,351,084
NON-CURRENT LIABILITIES			
Borrowings	15	2,947,747	4,000,000
Employee entitlements	16	52,468	112,495
TOTAL NON-CURRENT LIABILITIES		3,000,215	4,112,495
TOTAL LIABILITIES		21,438,633	24,463,579
NET ASSETS		14,718,550	19,739,350
EQUITY			
Issued capital	17	27,985,586	25,915,489
Retained earnings		(13,267,036)	(6,176,139)
TOTAL EQUITY		14,718,550	19,739,350

Heritage Brands Ltd and Controlled Entities

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Statement of Changes in Equity For the Year Ended 31 July 2024

2024

	Issued Capital	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2023	25,915,489	(6,176,139)	19,739,350
Loss for the year	-	(7,090,897)	(7,090,897)
Transactions with owners in their capacity as owners			
Issue of shares, net of capital raising costs	2,070,097	-	2,070,097
Balance at 31 July 2024	27,985,586	(13,267,036)	14,718,550

2023

	Issued Capital	Retained Earnings	Total
	\$	\$	\$
Balance at 1 August 2022	25,915,489	(4,873,086)	21,042,403
Loss for the year	-	(1,303,053)	(1,303,053)
Transactions with owners in their capacity as owners	-	-	-
Balance at 31 July 2023	25,915,489	(6,176,139)	19,739,350

Heritage Brands Ltd and Controlled Entities

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Statement of Cash Flows For the Year Ended 31 July 2024

		2024	2023
	Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		42,863,107	46,647,959
Payments to suppliers and employees		(44,017,339)	(45,696,259)
Interest received		38	2,373
Finance costs – bank interest		(604,344)	(1,074,723)
Net cash provided by/(used in) operating activities	27	<u>(1,758,538)</u>	<u>(120,650)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of plant and equipment	11	(651,165)	(254,224)
Proceeds from sale of goodwill	12	800,000	-
Payments for product and website development	12	(1,246,431)	-
Net cash provided by/(used in) investing activities		<u>(1,097,596)</u>	<u>(254,224)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (repayment of) borrowings		165,612	1,896,443
Net proceeds from rights issue		2,070,097	-
Repayment of lease liabilities		(460,144)	(416,187)
Net cash provided by/(used in) financing activities		<u>1,775,565</u>	<u>1,480,256</u>
Net increase/(decrease) in cash and cash equivalents held		(1,080,569)	1,105,382
Cash and cash equivalents at beginning of year		1,174,795	69,413
Cash and cash equivalents at end of financial year	8	<u>94,226</u>	<u>1,174,795</u>

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 31 July 2024

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

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

The separate financial statements and notes of the parent entity, Heritage Brands Ltd, have not been presented within this financial report as permitted by amendments made to the *Corporations Act 2001*. The parent entity financial information is disclosed in Note 29.

The financial report was authorised for issue by the Directors on 24 September 2024.

Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

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

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

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

Material accounting policy information relating to the preparation of these financial statements are presented below, and are consistent with prior reporting periods unless otherwise stated.

2 Material Accounting Policy Information

(a) Revenue and other income

Revenue from contracts with customers

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and
5. Recognise revenue as and when control of the performance obligations is transferred.

Notes to the Financial Statements

For the Year Ended 31 July 2024

2 Material Accounting Policy Information (continued)

(a) Revenue and other income (continued)

Specific revenue streams

The revenue recognition policies for the principal revenue streams of the Group are:

Sale of Goods

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

Other Income

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

(b) Income tax

Tax Consolidated Group

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

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

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

(c) Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment.

Notes to the Financial Statements
For the Year Ended 31 July 2024

2 Material Accounting Policy Information (continued)

(c) Plant and equipment (continued)

Depreciation

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

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

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

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

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

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

(d) Intangible assets

Goodwill

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

- i. the consideration transferred;
- ii. any non-controlling interest;
- iii. the acquisition date fair value of any previously held equity interest;
- iv. over the acquisition date fair value of net identifiable assets acquired in a business combination.

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

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

Notes to the Financial Statements

For the Year Ended 31 July 2024

2 Material Accounting Policy Information (continued)

(d) Intangible assets (continued)

Trademarks

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

Research and development costs

Costs incurred in developing products that are identifiable and will contribute to future period financial benefits through revenue generation or cost reduction are capitalised as intangible assets. Capitalised costs include external direct costs of materials and services, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis generally over three.

Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(e) Leases

The Group has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. The Group recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

(f) Going concern

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

- As disclosed in the financial statements, the Group incurred a loss of \$7,090,897 (2023: \$1,303,053) had net cash outflows from operating activities of (\$1,758,538) (2023: outflows of \$120,650) and has a deficit in net current assets of \$3,069,735 as at 31 July 2024 (31 July 2023: deficiency of \$576,754).
- The Group has received an extension of existing finance facilities to 31st December 2024. The Group has also received a Letter of Offer from its bank financier for a credit facility of \$11,300,000.
- As announced by the Group to the NSX on 23 September 2024, the Company is undertaking a 1 for 2 non-renounceable Rights Issue to raise the additional capital required by its bank financier in order to cure breaches of certain financial covenants caused by lower than expected Company earnings in FY 2024. The Group has forecast to trade profitably in the first half and full year 2025.
- The Group is able to sell brands to fund cash flows as demonstrated by the sale of Innoxia Marks Pty Ltd for \$800,000 during the year as disclosed in note 12.
- At the date of this report the Directors are satisfied that there are reasonable grounds to believe that the Group will continue as a going concern.

Notes to the Financial Statements

For the Year Ended 31 July 2024

2 Material Accounting Policy Information (continued)

(f) Going concern (continued)

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to amounts of classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(g) Adoption of new and revised accounting standards

The Group has adopted all standards which became effective for the first time at 31 July 2024, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Group.

(h) New accounting standards and interpretations issued but not yet effective

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Directors have decided against early adoption of these Standards, but does not expect the adoption of these standards to have any impact on the reported position or performance of the Group.

Notes to the Financial Statements

For the Year Ended 31 July 2024

3 Critical Accounting Estimates and Judgements

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

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

The significant estimates and judgements made have been described below.

Key estimates - impairment of goodwill

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

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

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

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

The Group prepares and approves formal five-year management plans for its operations, which are used in the value in use calculations.

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

The Group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in Note 12 to the consolidated financial statements.

Key estimates - receivables

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

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements For the Year Ended 31 July 2024

3 Critical Accounting Estimates and Judgements (continued)

Key estimates - inventory

The allowance for obsolete stock assessment requires a degree of estimation and judgement. The level of the allowance is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence. The Directors believe that an allowance for obsolete stock of \$181,619 (2023: \$382,813) is reasonable and that all other inventories are carried at their realisable values as at the end of the financial year.

Key estimates – deferred taxes

Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset based on budgets, current and future expected economic conditions.

4 Revenue and Other Income

	2024	2023
	\$	\$
Sales Revenue		
- Gross Sales	54,867,997	60,219,024
- Trading Terms	(14,237,786)	(14,743,572)
Net Sales	<u>40,630,211</u>	<u>45,475,452</u>
Other Revenue		
- Bank Deposit Interest	38	2,373
- Royalties	-	7,630
	<u>40,630,249</u>	<u>45,485,455</u>
Other Income		
- Sundry Income	-	1,200

5 Finance and Other Expenses

	2024	2023
	\$	\$
Finance Expenses		
Interest Expense – External	604,344	642,472
Interest Expense - Shareholder Loans	300,822	432,251
	<u>905,166</u>	<u>1,074,723</u>

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements For the Year Ended 31 July 2024

5 Finance and Other Expenses (continued)

	2024	2023
	\$	\$
Other Expenses		
Sales Commission	1,921,381	1,849,248
Digital Media Costs	778,170	1,255,945
Restructuring Costs	1,182,771	269,107
Other Expenses	1,743,823	2,100,899
	5,626,145	5,475,199

6 Income Tax Benefit

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

	2024	2023
	\$	\$
Current tax benefit		
Current tax – continuing operations	896,544	483,662
Deferred tax benefit		
Deferred tax	41,702	86,851
	938,246	570,513

(b) Reconciliation of income tax to accounting profit:

	2024	2023
	\$	\$
Loss before Income Tax	8,029,143	1,873,566
Tax Rate*	25.00%	25.00%
	2,007,286	468,391
Tax effect of:		
- other non-assessable (non-allowable) items	-	(39)
- adjustment to deferred taxes for change in tax rate	156,957	98,669
- capital loss on disposal of goodwill	(198,937)	-
- impairment of goodwill	(1,023,476)	-
- adjustment for current tax of prior periods	(3,584)	3,492
Income tax benefit	938,246	570,513

*As revenue is below \$50 million the corporate tax rate of 25% is applied.

The Group has unrecognised capital losses of \$959,237 with an unrecognised benefit of \$287,771.

Notes to the Financial Statements

For the Year Ended 31 July 2024

7 Operating Segments

Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (Chief Operating Decision Maker) in assessing performance and determining the allocation of resources.

Operating segments are determined on the basis of financial information reported to the Board of Directors which is at the Group level. Accordingly, the consolidated entity is treated as one operating segment.

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

Basis of accounting for purposes of reporting by operating segments

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

Geographical information

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

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers whereas segment assets are based on the location of the assets.

Major customers

Revenues of approximately \$44.7 million (2023: \$48.4 million) are derived from 10 customers. These revenues represent 81% (2023: 80%) of total external gross revenue.

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements For the Year Ended 31 July 2024

8 Cash and Cash Equivalents

	2024	2023
	\$	\$
Cash at bank and in hand	94,226	1,174,795
	<u>94,226</u>	<u>1,174,795</u>

9 Trade and Other Receivables

	2024	2023
	\$	\$
CURRENT		
Trade receivables	4,825,548	6,869,134
Provision for doubtful debts	(14,000)	(21,830)
Allowance for rebates, incentives and discounts	(845,538)	(656,228)
	<u>3,966,010</u>	<u>6,191,076</u>
Prepayments and other debtors	1,478,252	2,000,452
	<u>5,444,262</u>	<u>8,191,528</u>

(a) Credit risk

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

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

Credit risk arises from cash and cash equivalents and outstanding receivables.

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

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

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

Notes to the Financial Statements

For the Year Ended 31 July 2024

9 Trade and Other Receivables (continued)

(a) Credit risk (continued)

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

31 July 2024	Current	< 30 days overdue	< 90 days overdue	> 90 days overdue	Total
Trade receivables	3,533,840	976,938	172,600	142,170	4,825,548
31 July 2023	Current	< 30 days overdue	< 90 days overdue	> 90 days overdue	Total
Trade receivables	4,966,965	1,509,822	287,959	104,388	6,869,134

(b) Collateral held as security

A registered general security agreement over trade receivables has been provided for certain debt. Refer to Note 15 for further details.

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

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

10 Inventories

	2024	2023
	\$	\$
CURRENT		
At net realisable value:		
Finished goods	9,193,652	9,746,072
Provision for slow moving and obsolete stock	(181,619)	(382,813)
Inventory in transit	818,162	1,044,748
	<u>9,830,195</u>	<u>10,408,007</u>

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements For the Year Ended 31 July 2024

11 Plant and Equipment

	2024 \$	2023 \$
Plant and Equipment		
At cost	5,457,355	4,846,195
Accumulated depreciation	(4,659,122)	(4,367,364)
	798,233	478,831
Leasehold Improvements		
At cost	92,474	92,474
Accumulated depreciation	(90,308)	(83,312)
	2,166	9,162
	800,399	487,993
Right-of-Use Assets		
At cost	-	2,843,409
Accumulated depreciation	-	(2,405,246)
	-	438,163

(a) Movements in carrying amounts of plant and equipment

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

	Plant and Equipment \$	Leasehold Improvements \$	Right-of-Use - Assets \$	Total \$
Year ended 31 July 2024				
Balance at the beginning of the year	478,831	9,162	438,163	926,156
Additions	651,165	-	-	651,165
Disposals	-	-	-	-
Depreciation expense	(331,763)	(6,996)	(438,163)	(776,922)
Balance at the end of the year	798,233	2,166	-	800,399

	Plant and Equipment \$	Leasehold Improvements \$	Right-of-Use - Assets \$	Total \$
Year ended 31 July 2023				
Balance at the beginning of the year	569,945	1,097	876,331	1,447,373
Additions	241,229	12,995	-	254,224
Depreciation expense	(332,343)	(4,930)	(438,168)	(775,441)
Balance at the end of the year	478,831	9,162	438,163	926,156

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements For the Year Ended 31 July 2024

12 Intangible Assets

	2024	2023
	\$	\$
Capitalised Development costs		
At cost	1,246,431	-
Accumulated amortisation	(55,613)	-
	<u>1,190,818</u>	-
 Goodwill		
Cost	6,953,422	12,596,828
 Trademarks		
Cost	<u>6,656,308</u>	<u>6,656,308</u>
	<u>14,800,548</u>	<u>19,253,136</u>

Notes to the Financial Statements

For the Year Ended 31 July 2024

12 Intangible Assets (continued)

(a) Movements in carrying amounts of intangible assets

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

	Capitalised Development costs	Goodwill	Trademarks	Total
	\$	\$	\$	\$
Year ended 31 July 2024				
Balance at the beginning of the year	-	12,596,828	6,656,308	19,253,136
Additions	1,246,431	-	-	1,246,431
Disposals	-	(1,549,503)	-	(1,549,502)
Impairment	-	(4,093,903)	-	(4,093,903)
Amortisation expense	(55,613)	-	-	(55,613)
Balance at the end of the year	1,190,818	6,953,422	6,656,308	14,800,548

	Capitalised Development costs	Goodwill	Trademarks	Total
	\$	\$	\$	\$
Year ended 31 July 2023				
Balance at the beginning of the year	-	12,596,828	6,656,308	19,253,135
Additions	-	-	-	-
Amortisation expense	-	-	-	-
Balance at the end of the year	-	12,596,828	6,656,308	19,253,135

	2024
On the 22 July 2024, Innoxia Marks Ltd was sold.	\$
Cash consideration received	800,000
Transaction costs	(46,246)
Carrying amount of Net assets (Goodwill) sold	<u>(1,549,503)</u>
Loss on sale	<u>795,749</u>

Notes to the Financial Statements

For the Year Ended 31 July 2024

12 Intangible Assets (continued)

Impairment disclosures

For the purpose of impairment testing, goodwill and trademarks are allocated to cash-generating units which are based on the Group's reportable segments. The Group has determined that it has one CGU being consumer products.

The recoverable amount of the cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5-year period, using an estimated growth rate (which does not exceed the long-term growth rate for the industry), and a terminal value multiple. The cash flows are discounted using the Group's implied weighted average cost of capital.

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

- A pre-tax discount rate of 13%
- Sales growth of between 3% to 6.5%
- Expense growth of between 1% and 3%
- Terminal growth rate of 2.5%
- Gross margin of between 39.5% and 42.5%.

Sensitivity to Change of Assumptions

As the Group has made a provision for impairment of \$4,093,093 the recoverable amount is equal to the carrying amounts of intangible assets and plant and equipment using these cash flow projections.

If the pre-tax discount rate applied to the cash flow projections of this CGU had been 1% higher than management's estimate (14% instead of 13%), the Group would have recorded an additional impairment of approximately \$2 million.

Notes to the Financial Statements

For the Year Ended 31 July 2024

13 Leases

Lease liabilities

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

	< 1 year	1 - 5 years	> 5 years	Total undiscounted lease liabilities	Lease liabilities included in this Statement of Financial Position
	\$	\$	\$	\$	\$
2024					
Lease liabilities	-	-	-	-	-
2023					
Lease liabilities	472,500	-	-	472,500	460,144

Statement of Profit or Loss and Other Comprehensive Income

The amounts recognised in the statement of profit or loss and other comprehensive income relating to leases where the Group is a lessee are shown below:

	2024	2023
	\$	\$
Interest expense on lease liabilities	12,956	33,813
Depreciation of right-of-use assets	438,166	438,168
	<u>451,122</u>	<u>471,981</u>

Statement of Cash Flows

The amounts recognised in the statement of profit or loss and other comprehensive income relating to leases where the Group is a lessee are shown below:

	2024	2023
	\$	\$
Total cash flow for leases	<u>473,100</u>	<u>450,000</u>

Notes to the Financial Statements

For the Year Ended 31 July 2024

14 Trade and Other Payables

	2024	2023
	\$	\$
CURRENT		
Trade payables	6,743,474	8,968,726
Employee benefits	210,499	265,630
Sundry payables and accrued expenses	1,157,984	1,575,382
	<u>8,111,957</u>	<u>10,809,738</u>

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 to 90 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

15 Borrowings

	2024	2023
	\$	\$
CURRENT		
Unsecured liabilities:		
Insurance premium finance	329,380	321,693
	<u>329,380</u>	<u>321,693</u>
Bank loans	8,193,599	8,035,674
Shareholder loans	1,426,745	-
	<u>9,949,724</u>	<u>8,357,367</u>
NON-CURRENT		
Secured liabilities:		
Shareholder loans	2,947,747	4,000,000
	<u>2,947,747</u>	<u>4,000,000</u>

(a) Bank loan facility

The bank facility has been secured over:

- First registered general security agreement over the assets and undertakings of each Company in the Group;
- Unlimited guarantee and indemnity given by each Company in the Group;

Notes to the Financial Statements

For the Year Ended 31 July 2024

15 Borrowings (continued)

(a) Bank loan facility

- Right of entry deed with respect to property at 30 Bando Road, Springvale, Victoria; and
- Flawed asset arrangement over any cash deposits held with the National Australia Bank.

As at 31 July 2024, the Group has a credit facility of \$12,000,000 (2023: \$12,000,000) of which \$3,806,401 (2023: \$3,964,326) is unused. This facility and terms have been extended. A Letter of Offer has been received from the Groups bank financier.

Under the terms of the Letter of Offer, the Group has been offered a credit facility of \$11,300,000. The Group is required to comply with the following financial covenants on a quarterly basis:

- An interest cover ratio of no less than 3.0 times;
- EBITDA for the 12 months ending 31 July 2025 greater than or equal to \$1.768m with quarterly instalments of 25.3%, 28.3%, 59.3% in quarter 1 through 3 respectively;
- A stock turn ratio of no less than 2.50 times.

(b) Shareholder loans

Loan facilities of \$4,000,000 have been made available to the group from shareholders. \$3,000,000 is secured and \$1,000,000 unsecured.

Material conditions of the shareholder loans are as follows:

- Interest on secured loans is charged at 13% (2023:13%) per annum on \$1,250,000 and 5% per annum on \$1,750,000 (2023: 13%) payable yearly in arrears. Interest rate on unsecured loan is charged at 5% (2023: 13%) per annum on \$1,000,000 payable yearly in arrears. The payment of interest is subject to bank approval.
- The shareholder loans which expired on the 1 August 2024 were rolled-over. One to 31 January 2025 for \$1.25m and the others to 1 August 2025 for \$2.75m; and
- The secured loans are secured by a second registered general security agreement over the assets and undertakings of each Company in the Group consented to by the Group's banker.

Notes to the Financial Statements

For the Year Ended 31 July 2024

15 Borrowings (continued)

(c) Defaults and Breaches

Borrowing Covenants

As at 31 July 2024 the Group has breached its interest cover, inventory turnover and EBITDA covenants. The facility agreement requires that if 2 consecutive quarterly breaches are to occur the Group will be required to source additional equity equal to the minimum EBITDA covenant amount less actual EBITDA for the preceding 6 months. The bankers have advised that the funds raised from the 1 for 2 non-renounceable Rights Issue announced on 23rd September 2024 can be utilised to remedy the breach in accordance with the facility agreement.

16 Employee Entitlements

	2024	2023
	\$	\$
CURRENT		
Long service leave	129,996	374,754
Annual leave	246,741	349,081
	<u>376,737</u>	<u>723,835</u>
NON-CURRENT		
Long service leave	<u>52,468</u>	<u>112,495</u>

Notes to the Financial Statements

For the Year Ended 31 July 2024

17 Issued Capital

	2024	2023
	\$	\$
2,326,423,723 (2023: 1,801,111,087) Ordinary shares	27,985,586	25,915,489

(a) Ordinary shares

	2024		2023	
	\$	No.	\$	No.
At the beginning of the reporting period	25,915,489	1,801,111,087	25,915,489	1,801,111,087
Shares issued 1 for 1 non renounceable rights issue	2,101,250	525,312,636	-	-
Capital raising costs	(31,153)	-	-	-
At the end of the reporting period	27,985,586	2,326,423,723	25,915,489	1,801,111,087

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

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

(b) Capital management

Capital of the Group is managed in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

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

There are no externally imposed capital requirements.

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

	Note	2024	2023
		\$	\$
Total borrowings	15	12,897,471	12,357,367
Total leases	13	-	460,144
Less Cash and cash equivalents	8	(94,226)	(1,174,795)
Net debt		12,803,245	11,642,716
Equity		14,718,550	19,739,350
Total capital		27,521,795	31,382,066
Gearing ratio		46.5%	37.1%

Notes to the Financial Statements

For the Year Ended 31 July 2024

18 Earnings Per Share

(a) Earnings used to calculate overall earnings per share

	2024	2023
	\$	\$
Earnings used to calculate overall earnings per share	(7,090,897)	(1,303,053)

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

	2024	2023
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	1,989,647,951	1,801,111,087
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	1,989,647,951	1,801,111,087

19 Financial Risk Management

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

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

The Group does not speculate in financial assets.

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

Specific risks

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

Financial instruments used

The principal categories of financial instrument of the Group are:

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

Notes to the Financial Statements

For the Year Ended 31 July 2024

19 Financial Risk Management (continued)

Objectives, policies and processes

Risk management is carried out by the Group's senior management under the delegated power from the Board of Directors. The CEO and the General Manager of Finance and Operations has primary responsibility for the development of relevant policies and procedures to mitigate the risk exposure of the Group, these policies and procedures are then approved by the Audit, Risk and Corporate Governance Committee and tabled at the board meeting following their approval.

Reports are presented at each board meeting regarding the implementation of these policies and any risk exposure which the Audit, Risk and Corporate Governance Committee believes the board should be aware of.

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

Liquidity risk

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

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

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

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

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

	Within 1 Year		1 to 5 Years		Total	
	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment						
Trade and other payables (excluding estimated annual leave)	8,117,927	10,809,738	-	-	8,117,927	10,809,738
Borrowings (excluding leases)	9,949,724	8,357,367	2,947,747	4,000,000	12,897,471	12,357,367
Total contractual outflows	18,067,651	19,167,105	2,947,747	4,000,000	21,015,398	23,167,105

Notes to the Financial Statements

For the Year Ended 31 July 2024

19 Financial Risk Management (continued)

Credit risk

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

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

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

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

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

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

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

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

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

Market risk

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

(i) Foreign exchange risk

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

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 31 July 2024

19 Financial Risk Management (continued)

Market risk (continued)

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

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

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

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

(ii) Interest rate risk

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

At the reporting date, the Group is exposed to changes in market interest rates through its bank borrowings, which are subject to variable interest rates.

At 31 July 2024, if interest rates had increased by 100 basis points or decreased by 100 basis points from the year end rates with all other variables held constant, post-tax profit for the period would have been \$81k higher/\$81k lower, mainly as a result of higher/lower interest expense from borrowings. Other components of equity would have been \$81k lower/\$81k higher mainly as a result of an increase/decrease in the fair value of borrowings.

20 Tax Assets and Liabilities

	Opening Balance	Charged to Income	Closing Balance
	\$	\$	\$
Deferred tax assets			
Accruals and other timing differences	316,621	(18,372)	298,249
Tax losses	3,362,173	588,885	3,951,058
Balance at 31 July 2023	3,678,794	570,513	4,249,307
Accruals and other timing differences	298,249	(134,004)	164,245
Tax losses	3,951,058	1,072,250	5,023,308
Balance at 31 July 2024	4,249,307	938,246	5,187,553

Deferred tax assets were calculated at a tax rate of 30%.

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements For the Year Ended 31 July 2024

21 Dividends

No dividends have been declared or paid during the year (2023: \$Nil).

Franking credits account

	2024	2023
	\$	\$
The franking credits available for subsequent financial years	5,034,881	5,034,881

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

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

22 Key Management Personnel Remuneration

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

	2024	2023
	\$	\$
Short-term employee benefits	766,020	843,680
Long-term benefits	10,602	10,432
Post-employment benefits	60,919	57,697
	837,541	911,809

23 Auditors' Remuneration

	2024	2023
	\$	\$
Remuneration of the auditor, for:		
- auditing or reviewing the financial statements	59,500	57,000
- taxation services provided by related practice of auditor	12,730	12,340
	72,230	69,340

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 31 July 2024

24 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%) [*] 2024	Percentage Owned (%) [*] 2023
Subsidiaries:			
Heritage Brands (Australia) Pty Ltd	Australia	100	100
A.C.N. 134 223 804 PTY LTD (change of name from Innoxia Group Pty Ltd)	Australia	100	100
A.C.N. 103 420 024 PTY LTD (change of name from Innoxia Holdings Pty Ltd)	Australia	100	100
Innoxia Marks Pty Ltd	Australia	-	100
Incolabs Pty Ltd	Australia	100	100
Heritage Le Tan Pty Ltd	Australia	100	100

25 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 31 July 2024 (31 July 2023: None).

26 Related Parties

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

The Group's main related parties are Key management personnel (including all Directors) - refer to Note 22.

Key management personnel - refer to Note 22.

Refer to interests in subsidiaries in Note 24.

Refer to Note 15(b) for details on shareholder loans.

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

(b) Transactions with related parties

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

The following transactions occurred with related parties:

On 22 July 2024 Innoxia Marks Pty Ltd was sold to Metro Café for \$800,000. Following a competitive tender process for the sale of the Innoxia brand, no prospective buyer matched the price offered by Metro Café Sydney (No.1) Pty Ltd ("Metro Café"). Metro Café is associated with William McCartney, a Director of the Company. Innoxia inventory of \$206,795 was sold to Metro Café on 31 July 2024.

Notes to the Financial Statements

For the Year Ended 31 July 2024

27 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities

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

	2024	2023
	\$	\$
Loss for the year	(7,090,897)	(1,303,053)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- depreciation and amortisation	832,535	775,443
- impairment of intangibles	4,093,903	-
- (write back)/impairment of receivables	(7,830)	17,992
- write-down/(write back) of inventory	(38,236)	(1,109,796)
- capitalised interest expense	374,493	-
- loss on sale of goodwill (net of costs)	749,503	-
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	2,232,896	436,677
- (increase)/decrease in prepayments	522,199	(620,367)
- (increase)/decrease in inventories	616,048	(909,869)
- (increase)/decrease in deferred tax asset	(938,246)	(570,513)
- increase/(decrease) in trade and other payables	(2,697,781)	3,247,154
- increase/(decrease) in employee entitlements	(407,125)	(84,318)
Cashflows from operations	<u>(1,758,538)</u>	<u>(120,650)</u>

28 Events Occurring After the Reporting Date

The financial report was authorised for issue on 24 September 2024 by the board of Directors.

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

29 Parent Entity

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

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

Investments in subsidiaries, associates and joint ventures

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

Heritage Brands Ltd and Controlled Entities

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Notes to the Financial Statements

For the Year Ended 31 July 2024

29 Parent Entity (continued)

Tax consolidation legislation

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

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

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

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

	2024	2023
	\$	\$
Statement of Financial Position		
Assets		
Non-current assets	18,905,112	16,835,014
Total Assets	18,905,112	16,835,014
Equity		
Issued capital	27,985,586	25,915,488
Retained earnings	(9,080,474)	(9,080,474)
Total Equity	18,905,112	16,835,014

Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 July 2024 or 31 July 2023.

Contractual commitments

The parent entity did not have any commitments as at 31 July 2024 or 31 July 2023.

30 Statutory Information

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

Heritage Brands Ltd
30 Bando Road
Springvale VIC 3171

Heritage Brands Ltd and Controlled Entities

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Consolidated Entity Disclosure Statement

As At 31 July 2024

Entity Name	Entity Type	Place formed / Country of Incorporation	Ownership (%)	Tax Residency
Heritage Brands (Australia) Pty Ltd	Body Corporate	Australia	100	Australia
A.C.N. 134 223 804 PTY LTD (change of name from Innoxia Group Pty Ltd)	Body Corporate	Australia	100	Australia
A.C.N. 103 420 024 TY LTD (change of name from Innoxia Holdings Pty Ltd)	Body Corporate	Australia	100	Australia
Incolabs Pty Ltd	Body Corporate	Australia	100	Australia
Heritage Le Tan Pty Ltd	Body Corporate	Australia	100	Australia

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Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes for the year ended 31 July 2024 are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards, which, as stated in basis of preparation Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - b. give a true and fair view of the financial position and performance of the consolidated group;
 - c. the information disclosed in the attached consolidated entity disclosure statement is true and correct.
2. the Chief Executive Officer and Head of Finance and Operations Chief Finance Officer have given the declarations required by Section 295A that:
 - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with Australian Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view.
3. in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Mikem Krok

Dated: 24 September 2024

HERITAGE BRANDS LTD
INDEPENDENT AUDITOR'S REPORT

To the members of Heritage Brands Ltd

Opinion

We have audited the financial report of Heritage Brands Ltd ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 31 July 2024, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information, the consolidated entity disclosure statement and the Directors' Declaration.

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

- a) giving a true and fair view of the Group's financial position as at 31 July 2024 and of its performance for the year ended on that date; and
- b) Complying with Australian Accounting Standards and *Corporations Regulations 2001*

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

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HERITAGE BRANDS LTD

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters

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

Key Audit Matter	How our Audit Addressed the Key Audit Matter
<p>Recoverability of Intangible Assets</p> <p>At 31 July 2023 the Group has intangible assets of \$14,800,548 and during the year recorded an impairment charge of \$4,093,903.</p> <p>The recorded value of intangible assets is assessed for recoverability by the directors at least annually or more frequently if events or changes in circumstances indicate that the asset may have suffered an impairment.</p> <p>Recoverability is assessed through a discounted cash flow analysis, whereby future cash flows are estimated and a discount is applied in order to arrive at a present value of the future cash flows. The value derived is then compared with the recorded value of the intangible assets and if lower an impairment charge will be recorded.</p> <p>We focused on this area given the significant judgement involved in assessing the recoverable amount of these assets.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We checked the calculations and assessed the reasonableness of inputs into the directors' discounted cash flow analysis. • We also performed sensitivity checks of the discounted cash flow analysis. • We considered the appropriateness of the recoverability assessment and considered whether it was in line with Australian Accounting Standards and generally accepted accounting principles. • We assessed whether the disclosures included in the financial report meet the requirements of Australian Accounting Standards.
<p>Going Concern</p> <p>We note that the Group has a cash balance of \$0.1 million, current assets of \$15.4 million, current liabilities of \$18.4 million and a deficiency in net current assets of \$3.1 million.</p> <p>We also note that the company incurred a loss for the year of \$7.1 million and had cash outflows from operations of \$1.8 million.</p> <p>Going concern was considered a key audit matter given the current financial position and historical losses.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We considered the current financial position of the Group, finance facilities available, plans for future capital raises, management's forecasts and results subsequent to year end in our assessment of going concern.

HERITAGE BRANDS LTD

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 July 2024 but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of:

- a) the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- b) the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001*, and

for such internal control as the director determine is necessary to enable the preparation of:

- i. the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- ii. the consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

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

HERITAGE BRANDS LTD

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 July 2024. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Heritage Brands Ltd, for the year ended 31 July 2024, complies with section 300A of the *Corporations Act 2001*.

In.Corp Audit & Assurance Pty Ltd



Daniel Dalla
Director

Sydney, 24 September 2024

Heritage Brands Ltd and Controlled Entities

ACN 081 149 635

Additional Information for Listed Public Companies

31 July 2024

NSX Additional Information

Additional information required by the NSX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 31 July 2024 .

Substantial shareholders

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

Voting rights

Ordinary Shares

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

Options

No voting rights.

Distribution of equity security holders

Holding	Ordinary shares	
	Number of Shareholders	Number of shares
1-1,000	Nil	Nil
1,001-5,000	7	22,614
5,001-10,000	68	592,472
10,001-100,000	107	4,609,463
100,001-9,999,999,999	87	2,321,199,174
Totals	269	2,326,423,723

There were 133 holders of less than a marketable parcel of ordinary shares.

Heritage Brands Ltd and Controlled Entities

ACN 081 149 635

Additional Information for Listed Public Companies

31 July 2024

Twenty largest shareholders

Ordinary shares

	Number held	% of issued shares
Rawlo International Pty Ltd*	766,679,124	33.0%
Souls Private Equity Limited	452,470,639	19.4%
Maxim Krok*	160,174,133	6.9%
Stephen Mason*	156,546,177	6.7%
Rawlo International Pty Ltd*	138,262,154	5.9%
CVC Limited	138,038,827	5.9%
Akoca Pty Ltd*	120,174,134	5.2%
Maximize Equity Pty Ltd*	91,431,644	3.9%
Stephen Mason*	69,848,883	3.0%
S Goodey Pty Ltd	39,487,967	1.7%
PTJ Holdings Pty Limited	31,698,634	1.4%
JKL Developments Pty Limited	31,698,634	1.4%
Mr Steven Andrew O'Neill	18,249,034	0.8%
National Nominees Limited	11,550,000	0.5%
Kistani Holdings Pty Limited*	11,369,060	0.5%
Mr John Nicholas Formby & Mrs Hong Thi Formby	8,816,306	0.4%
Mr Christopher McGibbon & Mrs Elizabeth McGibbon	8,003,333	0.3%
Posere Pty Limited*	7,000,000	0.3%
Mr Alexander Damien Beard & Mrs Marie Pascale Beard	7,000,000	0.3%
Harness Capital Pty Ltd	6,500,000	0.3%

*Signifies a Director controlled entity

Unissued equity securities

There are no unissued equity securities

Company secretary

The name of the Group secretary is Stephen Mason.

Principal address

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

Registers of securities

Registers of securities are held at the following addresses:

NSW Boardroom Pty Ltd, Level 8, 210 George Street, Sydney, NSW 2000.
Victoria 30 Bando Road, Springvale, VIC 3171.

Securities exchange

The Group is listed on the National Stock Exchange (NSX). Quotation has been granted for all the ordinary shares of the Group on all member exchanges of the NSX.

Unquoted securities

There are no unquoted securities.