

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT



Simon A. Rowell, Chairman

The 2008-09 year was an exceptionally difficult one with the global financial crisis causing immense volatility in financial and commodity markets and severe economic dislocation.

In such a challenging environment it was a highly creditable achievement to increase sales by 7% to \$357 million, particularly as every major brand also posted stronger sales.

McPherson's Limited achieved an underlying pre-tax profit of \$29.6 million for the year compared with the record \$38.2 million reported for the previous year. Strong underlying earnings per share of 32.8 cents were achieved, although lower than last year's 42.7 cents. Because of the requirement to focus on debt reduction in a very uncertain economic environment, Directors decided not to declare any dividends for the 2008-09 year. However, Directors expect to reinstate dividends commencing with an interim dividend for the 2009-10 year with all future dividends expected to remain fully franked.

The Company's major business, McPherson's Consumer Products, produced earnings before interest and tax and non-recurring items (EBIT) of \$38.5 million compared with \$47.0 million for the previous year. McPherson's Consumer Products produces a large range of products focused on its key brands Wiltshire (housewares), Manicare (beauty care), Lady Jayne (hair care), Multix (kitchen essentials) and Swisspers (skin care). The products are distributed through all major retailers in Australia and New Zealand and also in Asia. Manufacturing is outsourced to a range of suppliers in a number of countries, but particularly China, and McPherson's Consumer Products has a major presence in Hong Kong and China focused on quality assurance and product sourcing.

Most products are purchased in US dollars and the consumer products business was greatly impacted by the decline in value of the Australian dollar between July 2008 and February 2009 which increased these product costs by around 50%. Management reacted promptly and put in place a number of profit restoration initiatives which are now having positive impact. This included overhead reduction through the



David J. Allman, Managing Director

amalgamation of all Australian consumer products operations into one entity trading as McPherson's Consumer Products. The new integrated management structure is functioning well and all integration processes are substantially complete.

McPherson's Printing Group, Australia's leading producer of books, reported EBIT of \$4.3 million for the 2008-09 year compared with \$4.7 million for the previous year. Reduced demand in commercial printing saw revenue decline by 3% however book volumes remained steady. The business continues to vigorously pursue cost reductions through internal efficiencies and investment in new technology.

Since the end of the 2008-09 year the Company has raised additional share capital of \$15 million before costs through the issue of 7.14 million new ordinary shares at \$2.10 per share. The capital raised has been used to further reduce debt levels which will place the Company in a strong position to take advantage of any commercial opportunities which arise. Based on the 30 June 2009 balance sheet the additional capital would reduce the gearing level from the reported 67% to approximately 53%.

Trading to date for the 2009-10 year has continued the positive trend of the previous few months. Despite the challenging economic environment Directors remain confident that the Company is well placed to improve earnings per share during 2009-10. Improved gearing will remain a major focus and the gearing ratio is expected to continue to reduce, even following the expected resumption of dividend payments commencing with an interim 2009-10 dividend.

A handwritten signature in black ink, appearing to read 'Simon Rowell', written over a white background.

Simon Rowell
Chairman

A handwritten signature in black ink, appearing to read 'D. J. Allman', written over a white background.

David Allman
Managing Director

MANAGEMENT RESTRUCTURE

The amalgamation of the consumer businesses into a single entity, McPherson's Consumer Products, will achieve benefits in both cost and efficiency. The Board was very pleased to appoint an internal candidate, Paul Maguire, to the position of Chief Executive of the combined consumer products business.

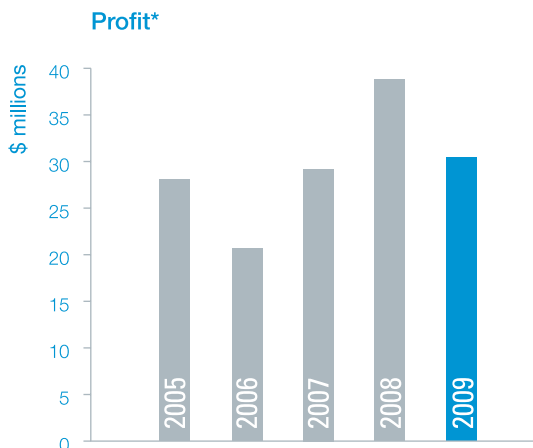
Paul has been a senior executive of McPherson's since 2004, as Chief Executive of the Multix and Accantia parts of the consumer business. Paul joined McPherson's as part of the acquisition of Multix and has developed it into a major element of the McPherson's Consumer Products business. After a transition period he will be appointed Managing Director, replacing David Allman.

The Board takes pleasure in congratulating Paul on his appointment as Managing Director, and we look forward to a future of growth, innovation and prosperity.

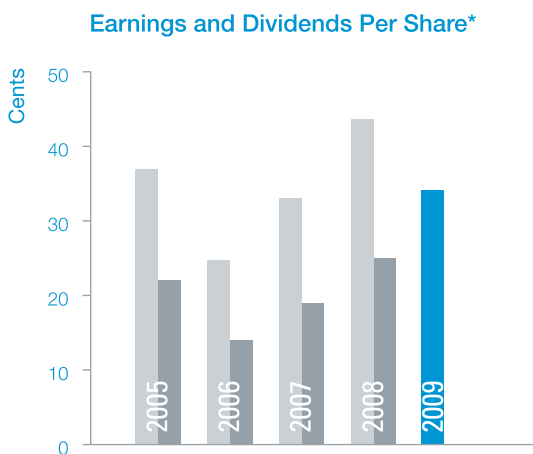
David Allman's retirement as Managing Director comes after 15 years of outstanding service to McPherson's, during which period he has overseen a transformation of the Company from a small group of unprofitable businesses to a successful consumer products company. Targeted acquisitions, successful brand development and innovation in design have combined to create the McPherson's of today. McPherson's now has sales of more than \$350 million per year, powerful brands, substantial profits and the ability to withstand major external adverse events while maintaining strong profits and positive cash flow, as witnessed by the events of the past financial year.

The Board would like to congratulate David on his outstanding record and thank him for his commitment and his achievements. We are extremely pleased that David will remain on the Board as a non-executive Director of McPherson's Limited following his retirement as Managing Director.

In February 2009 Alex Waislitz retired as a Director after having served in that capacity since 1998. The Board would like to thank Alex for his contribution. Peter Landos, who was previously Alex's alternate, was appointed a Director on Alex's retirement.



* Operating profit before tax, amortisation of intangibles and excluding non-recurring items.



* Earnings per share before amortisation of intangibles and excluding non-recurring items.

■ Earnings per share ■ Dividends per share