McPherson's Limited
ACN 004 068 419

5 Dunlop Road
PO Box 4490
Mulgrave VIC 3170
Australia

Telephone: +61 3 9566 3300
Facsimile: +61 3 9574 9075

# CHAIRMAN'S ADDRESS
# ANNUAL GENERAL MEETING 13th November 2009

The year ended 30 June 2009 was the most challenging we have faced for many years, mainly as a result of the global financial crisis.

Despite the difficulties, it was very pleasing that McPherson's achieved quite a reasonable result, with the highlights being:-

- Sales of $356.8 million (up 7%)
- Earnings before interest, tax and non-recurring items of $39.5 million (down 18%)
- Net profit after tax and non-recurring items of $19.5 million (down 27%)
- Earnings per share of 30.2 cents (down 27%)

The improvement in sales was generated by McPherson's Consumer Products, in particular the key brands of Wiltshire, Manicare, Lady Jayne, Multix and Swisspers, each of which achieved higher sales. This was confirmation that the majority of McPherson's products are "non-discretionary" and relatively immune to downturns in consumer demand.

However, despite the strong sales, earnings were significantly lower because of higher product costs. Manufacturing of most of McPherson's products is outsourced to factories in Asia, principally China, and transactions are mainly in US dollars. The weakness of the Australian dollar during the financial year caused product costs to increase by about 50% in Australian dollar terms. Various actions were taken to counter the adverse currency, including a thorough review of the product range to delete products with inadequate margins and replace them with items with more acceptable margins. Other actions included seeking lower prices from our manufacturing partners and in some cases increasing selling prices.

Overheads were also a focus and a rationalisation of the McPherson's Consumer Products Australian business has resulted in significant savings from rationalising warehousing, and consolidating the logistics, IT systems, sales, finance and customer service functions.

The business is now extremely well placed for growth and to take advantage of improvements in demand as the economy strengthens. McPherson's continues to focus strongly on innovations, brand development and product improvements and there are many exciting new and improved products coming to market over the next 12 months.

McPherson’s Printing Group, which produces books and other high quality printed materials, achieved earnings before interest and tax of $4.3 million, slightly lower than the previous year’s $4.7 million.

As Australia's largest printer of quality books, it is very pleasing to note that the Federal Government two days ago determined not to adopt a recommendation to allow unrestricted import of books in a way which would have adversely affected all Australian publishers and printers.

The Company’s cashflow was impacted during the year owing mainly to the increased cost of goods and consequent increase in the carrying value of inventory. Cashflow from operations was $15.9 million, down from $29 million last year. However, gearing (net interest-bearing debt as a percentage of shareholders’ equity) improved slightly to 67% at 30 June 2009 compared to 69% a year earlier.

Following the generally poor conditions on stock markets worldwide, the McPherson’s share price was under pressure for several months. However, with a better financial result for the year to 30 June 2009 than was anticipated at the beginning of the financial crisis, and a general recovery in stock markets, the share price is returning to more normal levels.

Following the announcement of the 2009 results, the Company raised capital of $15 million (before expenses) through a combination of a placement and share purchase plan, which was strongly supported by shareholders. This has been achieved at a price of $2.10 per share, with relatively little dilution to existing shares, and would have resulted in gearing of 53% at 30 June 2009 had the capital raising occurred at that date.

The current expectation is that gearing will further reduce to around 45% at 30 June 2010. The directors have decided to maintain gearing at a lower level than has been the case in the past. This will also further improve the interest cover which for the year ended 30 June 2009 was a satisfactory 3.7 times. Interest cover is expressed as earnings before interest and tax as a multiple of interest expense.

The preference to improve gearing and conserve cash meant that no dividends were paid for the 2009 financial year. However, directors intend to reinstate dividends for the 2010 financial year, commencing with the interim dividend expected to be paid in April 2010. The present intention is to continue the policy of paying approximately 50% of annual after tax profits as dividends. The Company has substantial franking credits and directors anticipate future dividends will continue to be fully franked.

Sales continue to be robust in the new financial year with revenue exceeding last year for the first four months to the end of October 2009. Revenue in 2010 is anticipated to exceed the 2009 financial year for both the first half and the full year. McPherson’s products are individually relatively low priced consumer goods, mainly targeting regular and necessary purchasing as opposed to discretionary items. McPherson’s products are also typically number one or two in their category, which provides sales strength.

If the recent appreciation of the Australian Dollar is maintained, this will also assist margins going forward but competitive pressures may limit the impact of this factor. In addition, the Company's foreign currency hedging policy is to cover all forecast US dollar purchases 6 months forward, so combined with inventory turnover the impact of a higher Australian dollar will not be fully felt until the second half of the 2009/10 year.

As previously advised, Directors expect that earnings per share for the 2010 financial year will exceed 2008-09 by approximately 25%, despite the additional shares issued from the placement and share purchase plan. Based on last year's earnings of 30.2 cents, this would result in approximate 2009/10 earnings of 38 cents per share.

Shortly after the end of the financial year the board announced a major management change. Namely, that David Allman, who had been Managing Director since 1995, would retire and Paul Maguire would be appointed as Managing Director, following a transition of several months.

This change formed part of the major reorganisation of the business referred to earlier, which involved the merging of the two Australian Consumer Products businesses into a single entity.

I am pleased to say that all these moves have now been substantially completed and Paul has taken over as the new Managing Director with effect from 1 November.

David Allman has retired as Managing Director and I would like to thank him on behalf of the board for outstanding service over the past 15 years. When David joined McPherson's it had been incurring losses for several years, and he has brought a level of professionalism, focus and commitment to the business. In conjunction with the acquisition of a number of compatible businesses he has overseen the transformation of the Company into the profitable consumer-products based business of today. We are very pleased that David has agreed to remain on the board as a non-executive director.

I am also very pleased to welcome Paul Maguire as the new Managing Director. It is particularly satisfying that Paul is an internal appointment, having been CEO of Multix since before its acquisition by McPherson's some 5 years ago. Paul's in-depth knowledge of the business, the strategy, the people and the products means that he has an excellent foundation on which to build McPherson's next stage of growth.

During the year Alex Waislitz resigned as a director and was replaced by Peter Landos, who had been alternate director for Alex. I would like to thank Alex for his many years of service to the company and to welcome Peter.

I would also like to pay tribute to all McPherson's management and staff for their outstanding commitment displayed in the extraordinarily difficult circumstances of the past year. It is owing to their achievements that McPherson's remains strong and poised for further success.

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