



McPHERSON'S

# Consolidation/ Optimisation

2016 Annual Report

## **Annual General Meeting**

The Annual General Meeting of McPherson's Limited will be held at the offices of Thomson Geer, Level 25, 1 O'Connell Street, Sydney, on Monday, 21 November 2016 at 11.00 a.m. (AEDT).

## **Financial Calendar\***

**November 2016**  
Annual General Meeting

**February 2017**  
Release of results to 31 December 2016

**August 2017**  
Preliminary results to 30 June 2017

**September 2017**  
Publication of Annual Report and accounts for year to 30 June 2017

\* Subject to change

## **Dividend Policy**

To distribute at least 60% of the Company's net earnings to shareholder (subject to other funding requirements).





McPHERSON'S

# Consolidation/ Optimisation

Having completed our transformation phase, we are now consolidating and optimising our business growth potential.

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# About Us



## OUR BUSINESS

McPherson's Limited is a leading supplier of health & beauty, household & personal care, and home appliance products in Australasia, with operations in Australia, New Zealand and Asia.

The health & beauty division markets and distributes beauty care, hair care, skin care and fragrance product ranges; the household & personal care division markets and distributes kitchen essentials such as baking paper, cling wrap and aluminium foil and personal care items such as facial wipes, cotton pads and foot comfort products;

the home appliance division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers.

McPherson's manages some significant brands for overseas agency partners such as Gucci, Dolce&Gabbana and Hugo Boss prestige fragrances and Trilogy skincare; however, the majority of revenue is derived from the company's diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Swisspers, Moosehead, Maseur, Multix, Euromaid and Baumatic.

Since the demerger of the Group's printing business in FY2012, McPherson's has embarked on a successful transformation. Through strategic acquisitions and divestments, as well as product innovation, the management team has established a portfolio of trusted and profitable brands across a diverse, multi-channel customer base in Australia, New Zealand and Asia.

Manufacturing is outsourced to various suppliers, predominantly in Asia. McPherson's maintains a strong presence in Hong Kong and mainland China focused on sourcing and quality assurance.

McPherson's Limited is a leading supplier of health & beauty, household & personal care, and home appliance products in Australasia.



## FY2016 Key Highlights

- Significant improvement in revenue quality resulting from a disciplined program of brand consolidation and discontinuation of lower margin branded and private label product ranges.
- Double digit growth in underlying earnings despite significant AUD/USD currency devaluation.
- Significant improvement in financial position due to very strong operating cash flow before payments of interest and tax of \$34.2m and net inflows from divestments of \$9.8m.
- Launch of new innovative ranges across Dr. LeWinn's, Akin, Manicare and Lady Jayne brands.
- Centralisation of Group functions across Australia, New Zealand and Hong Kong in both accounting and IT functions.

13.6cents  
 UNDERLYING EARNINGS PER SHARE IN 2016 WERE 13.6 CENTS COMPARED WITH 12.4 CENTS

\$312.6m  
 TOTAL REVENUE FOR FINANCIAL YEAR ENDING JUNE 2016

35.4%  
 35.4% REDUCTION IN NET DEBT FROM \$77.2M TO \$49.9M

32.3%  
 REDUCTION IN GEARING RATIO TO 32.3% FROM 43.9% YEAR ON YEAR

\$5.1m  
 SAVINGS FROM PRODUCT SOURCING PROJECTS ACROSS THE GROUP

# Chairman's Report

“This year's result reflects the success of McPherson's continued 'makeover', with resources now focused on fewer, more significant and more profitable brands with growth potential.”

As a consequence of the company's substantial transformation program, the implementation of which commenced over four years ago with the demerger of our printing business, it is very pleasing to report a material improvement in FY2016 statutory and underlying profit, despite a second consecutive year of significant devaluation in the AUD/USD.



## FINANCIAL PERFORMANCE

The improved result was achieved despite lower revenue and is evidence of a significant improvement in revenue quality resulting from a disciplined program of brand consolidation and discontinuation of lower margin branded and private label product ranges. Sales revenue was \$312.6 million, 1.3% below the previous year excluding the Housewares business which has now been fully divested. Including the Housewares business, sales declined by 10%.

Underlying profit after tax, excluding non-recurring items, was \$13.4 million compared with \$12.0 million in FY2015, and underlying earnings per share were 13.6 cents compared with 12.4 cents. Statutory profit after tax was \$11.0 million compared with \$8.8 million in FY2015.

Shareholders received a fully franked interim dividend of 6 cents per share and will receive a fully franked final dividend of 2 cents per share in November 2016, in line with the directors' policy to distribute at least 60% of the company's net profit after tax to shareholders. The interim dividend paid was higher than the final dividend due to the seasonally higher first half underlying earnings per share outcome of 9.1 cents per share in comparison with second half underlying earnings per share of 4.5 cents per share.

The company's balance sheet was materially strengthened in FY2016, with net debt decreasing 35% from \$77 million at 30 June 2015 to \$50 million at 30 June 2016. This significant improvement in financial position was due to very strong operating cash flow before payments of interest and tax of \$34.2 million and net inflows from divestments of \$9.8 million. Consequently the gearing ratio (net debt / total funds employed) reduced from 44% at 30 June 2015 to 32% at 30 June 2016.

The company continued to diversify and strengthen during FY2016, with reduced reliance on the grocery channel which contributed 37% of revenue, compared with 45% the previous year. At the same time, sales through the pharmacy channel continued to grow, contributing 29% of total revenue.



## CONSOLIDATION OF OPERATIONS WITH FOCUS ON FEWER, BIGGER, BETTER BRANDS

In a trading environment that continued to present challenges, the strategies to improve business outcomes delivered significantly improved results. The Company grew its overall contribution margin and underlying profit as a result of organisational re-design, broad based selling price increases and product cost reductions across all divisions, and significant operating expense reductions particularly in Health & Beauty.

The result reflects the success of McPherson's continued 'makeover', with resources now focused on fewer, more significant and more profitable brands with growth potential. This brand consolidation and product rationalisation

brought about the deletion of a number of lower margin peripheral brands, resulting in a one-off, non-recurring inventory rationalisation cost, while also creating significant available capacity at the Sydney distribution centre for the warehousing and distribution of more profitable product lines.

Complementing this initiative, the company expanded its Australian IT system into New Zealand and Hong Kong, consequently incurring one-off redundancy costs, but greatly improving operational efficiency.

The company is investing substantially in its digital capability. With a focus on priority brands Manicare, Lady Jayne, Dr. LeWinn's and Akin, the content and ease-of-use of the new digital platform will facilitate more meaningful consumer relationships and stronger retailer partnerships, while also providing a convenient platform for direct consumer purchases.

The Chinese market represents a largely untapped growth opportunity for the company, particularly the Dr. LeWinn's skincare brand and Akin natural skincare/haircare brand. Management has diligently researched this opportunity and determined a strategy to expand awareness of a select range of products that are well positioned to meet Chinese consumer demand for Australian beauty products. Commencing September 2016, the company will take its first steps to make its key brands available to Chinese consumers through various channels and it is expected that this initiative will gain momentum throughout FY2017.



*Graham Cubbin*

**GRAHAM CUBBIN**  
Chairman



#### DIVISIONAL PERFORMANCE

**Health & Beauty** sales increased by 3% and the division contributed 47% of group revenue, compared with 45% the previous year. Peripheral brands were deleted and additional ranging secured. Key brands performed strongly, indicating potential for further growth, which will be leveraged through increased advertising investment in FY2017.

The **Home Appliances** division, which contributed 24% of the company's revenue, increased sales by 13%, helped by new product launches, but margins were affected by the weak Australian dollar and the restructuring of a major retail customer's business operations. Successful negotiations with suppliers to reduce product costs, together with supply chain savings and selling price increases, are expected to support profitability in FY2017.

The **Household Consumables** division's revenue was 15% lower than the previous year, as some private label agreements were exited, but sales of Multix branded products were in line with prior year. Margins were affected by the weak Australian dollar; however, easing commodity prices, selling price increases and reduced product costs are expected

to support profitability in FY2017. To leverage the company's grocery channel expertise, a new 'Household & Personal Care' division was formed in July 2016, combining the Multix, Swisspers, Moosehead and Maseur brands, all of which are leaders in their categories.

As announced in July 2016, the small non-core **Impulse Merchandising** business has recently been closed following the decision by a major Australian grocery retailer to cease its impulse merchandising program. This has led to a one-off closure cost, but will release approximately \$2 million of working capital in FY2017. The closure will marginally improve overall company earnings in FY2017.

McPherson's remaining 49% interest in its **Housewares** joint venture was successfully divested to the Fackelmann Group on 31 March 2016.



#### DIRECTOR APPOINTMENT

In October 2015 Ms Margaret Payn, an experienced senior executive with extensive experience in strategy, finance and operations in global financial institutions was appointed as an independent, non-executive director.



#### LEADERSHIP TRANSITION

After more than six years as Managing Director, Mr Paul Maguire has decided to retire from the company with effect from the conclusion of the Annual General Meeting on 21 November 2016.

Mr Laurie McAllister has been selected to succeed Mr Maguire. He will commence with the company on 1 November, and after a transition period will be appointed Managing Director on 21 November 2016.

Paul will leave McPherson's in a stronger position than when he started, having transformed the business materially. In this time he has strengthened the business portfolio including a greater focus on high value categories such as Health and Beauty brands – a core area of future growth for the company.

Following the de-merger of McPherson's Printing business, Paul successfully managed the acquisition of several businesses, including Home Appliances and the Dr. LeWinn's and Akin skincare businesses, and established key agency partnerships with significant beauty brands such as Trilogy Skincare and Procter & Gamble (Gucci, Dolce&Gabbana and Hugo Boss prestige fragrances). He also successfully divested the Crown Glassware business three years ago and, more recently, has divested McPherson's Housewares business to the Fackelmann group.

Mr Laurie McAllister joins McPherson's following a career as a successful General Manager / Managing Director with extensive FMCG exposure. He has had 22 years of experience with Coca-Cola in very senior roles operating across 80+ countries, based out of five countries across Europe and Asia-Pacific. Most recently, Laurie has been Managing Director of Sanofi Australia & New Zealand, as well as serving on the Board of Medicines Australia for two years.



#### LOOKING FORWARD

Structural changes and successful operational initiatives are facilitating a leaner, more focused operation, with the business successfully re-set to operate in today's currency environment. We will continue to benefit from sourcing initiatives and operational efficiencies, with further benefits to come from our existing pipeline of new products, enhanced digital capability and planned expansion in the Chinese market.

We thank our employees for their hard work and initiative in successfully transforming our business and our shareholders for their continuing support. We are confident that our strategy will result in improved profitability and stronger brands.

# Review of Operations

McPherson's mission is to be a world-class consumer products company.

## RESULTS FOR THE YEAR

McPherson's sales revenue was \$312.6 million net of customer allowances, 10.5% below the previous year's \$349.1 million. Sales revenue from continuing businesses on a like-for-like basis (i.e. excluding Housewares business which has now been fully divested) was \$4.0 million or 1.3% below FY2015. This decrease in sales revenue is the result of a disciplined program of brand consolidation, with lower margin branded and private label product ranges discontinued.

The EBIT (earnings before interest and tax) excluding significant items, was \$25.7 million, 14.2% above FY2015 (\$22.5 million). The profit before tax excluding significant items was \$18.9 million, 15.4% above FY2015. Significant items before tax in FY2016 included gain recognised from the divestment of Housewares of \$2.0 million, inventory rationalisation and restructuring costs of \$4.4 million, costs associated with exiting the Impulse Merchandising Division of \$1.4 million, legal and acquisition costs of \$0.2 million and bond buyback costs of \$0.3 million. Significant items before tax in FY2015 included \$4.1 million in restructuring costs, \$2.0 million interest rate swap termination loss, \$2.0 million contingent consideration adjustment benefit, \$0.6 million impairment of intangible assets and \$0.4 million acquisition costs. The profit after tax excluding significant items was \$13.4 million, 12.3% above FY2015.

The Earnings per share excluding the significant items, increased 9.7% from 12.4 cents per share to 13.6 cents per share.

Inclusive of the aforementioned significant items, McPherson's reported a statutory profit after tax of \$11.0 million, compared with a statutory profit after tax of \$8.8 million in FY2015.

Net debt decreased by 35.4% from \$77.2 million at 30 June 2015 to \$49.9 million at 30 June 2016. The company's gearing ratio (net debt / total funds employed) decreased from 43.9% at 30 June 2015 to 32.3% at 30 June 2016. The net cash inflow of \$5.0 million in FY2016 included payments totalling \$8.5 million for the acquisitions made during the year and proceeds from the divestment of business assets of \$18.3 million made during the year.

Directors declared a total dividend of 8 cents per share fully franked for the full year. This represented a payout ratio for the year ended 30 June 2016 of 59% of earnings excluding significant items per share.

Double-digit percentage growth in earnings was achieved in FY2016 despite significant AUD/USD devaluation. In a trading environment that continued to present challenges, the strategies to improve business outcomes delivered significantly improved results. The Company grew its profit as a result of organisational re-design, broad based selling price increases and product cost reductions across all divisions, and significant operating expense reductions particularly in Health & Beauty.

The result reflects the success of McPherson's continued 'makeover', with resources now focused on fewer, more significant and more profitable brands with growth potential. This brand consolidation and product rationalisation brought about the deletion of a number of lower margin peripheral brands, resulting in a one-off, inventory rationalisation cost, while also creating significant available capacity at the Sydney distribution centre for the warehousing and distribution of more profitable product lines.

The Company continues to operate a comprehensive foreign exchange hedging program, which mitigates the impact of Australian dollar and US dollar movements. The company's foreign exchange hedging policy was reviewed and amended in 2016, with estimated USD and Euro requirements related to particular customers hedged twelve months forward and other USD and Euro requirements hedged eight months forward on a rolling monthly basis using options, foreign exchange contracts and collars. The company's exposure to the US dollar declined in FY2016 due to the cessation of unprofitable private label supply contracts sourced in US dollars and growth in Australian sourced Health & Beauty product. In FY2017 the company's exposure to the US dollar is expected to continue to reduce as a result of further growth in Australian sourced Health and Beauty product.

The total expenses excluding product costs, borrowing costs and significant items, decreased by \$10.4 million or 8.9%, largely due to a reduction in employee costs, cartage, freight, third party warehousing and retail costs resulting from the change in product mix, the divestment of the Housewares business and restructuring initiatives. The percentage of expenses to sales ratio increased marginally from 33.6% of sales in FY2015 to 34.2% of sales in FY2016 in part due to an increased investment in advertising and promotional expenditure with the objective of growing Health & Beauty sales and contribution.

During the past year the company has expanded its Australian IT system into New Zealand and Hong Kong, consequently incurring one-off redundancy costs, but greatly improving operational efficiency.

## AUSTRALIA

McPherson's Australian operation's sales revenue was \$288.0 million, a decrease of 6.2% on FY2015 (\$306.9 million).

This revenue decline was largely the result of the decision to exit unprofitable private label product categories and the Pet category. The Health & Beauty division achieved 3% growth as new products were introduced, peripheral brands deleted and additional ranging secured.

The Multix brand continued to maintain market leadership in Australia, resulting in FY2016 revenue that was in line with prior year. Margins declined less than 1 percent point despite the material depreciation of the AUD/USD exchange rate due to limited price increases and cost reductions.

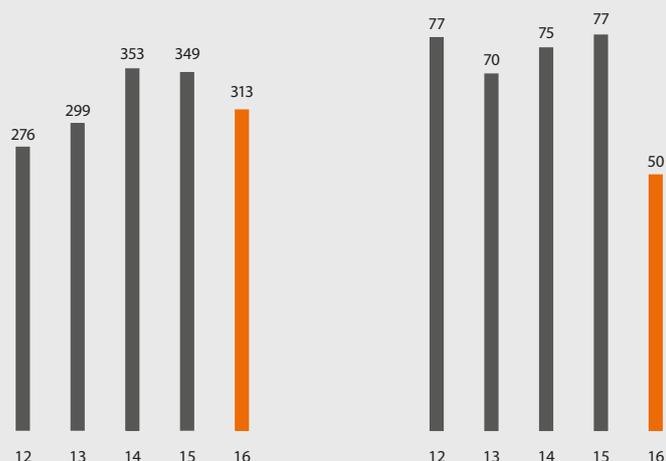
The Home Appliances division achieved revenue growth of \$8.6 million or 13.3%, largely due to growth in the retail and commercial channels. Margins were adversely impacted by depreciation of the AUD/USD exchange rate.

## NEW ZEALAND

McPherson's New Zealand operation experienced a 54.1% decrease in sales as a result of the divestment of Housewares impacting sales from 1 July 2015. Additionally revenue has been impacted by a disciplined brand consolidation program that commenced in the fourth quarter of FY2016.

## ASIA

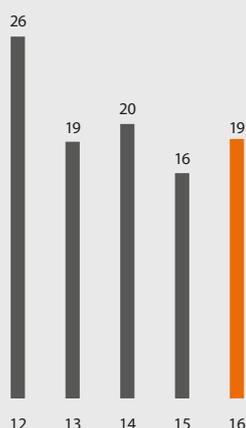
From its Asian headquarters in Singapore, McPherson's markets an extensive range of health & beauty products throughout the Asian region. Brands include the key Company-owned brands of Manicare, Lady Jayne and Swisspers complemented by licensed brands.



SALES\* (\$M)

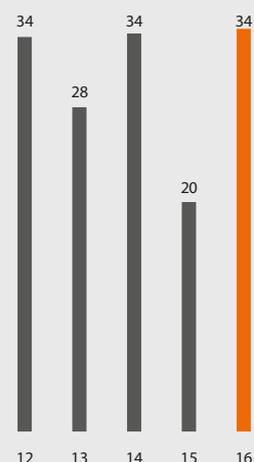
\* Sales Net of Customer Allowances.

NET DEBT (\$M)



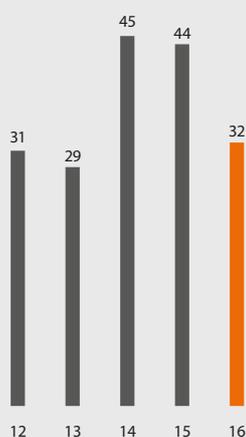
PROFIT BEFORE TAX\* (\$M)

\* Operating profit before tax from continuing operations and excluding significant items.



CASH FLOW\* (\$M)

\* Operating cashflow before interest and tax.



GEARING\* (%)

\* Net debt / (Net debt + shareholders' funds).



EARNINGS\* AND DIVIDENDS PER SHARE (cents)

\* Underlying EPS excludes significant items.



# Review of Operations (Continued)

A leading supplier of health & beauty, household & personal care, and home appliance products in Australasia, McPherson's has operations in Australia, New Zealand and Asia.

## DIVESTMENT DURING THE YEAR

On 1 July 2015, McPherson's divested 51% of its stake in the Housewares business in New Zealand to the Fackelmann Group for \$NZ2.3 million. The consideration received was equal to the adjusted carrying value of net assets disposed.

On 31 March 2016, the Fackelmann Group exercised its call options over the McPherson's Limited Group's 49% ownership in the Housewares New Zealand, Hong Kong and Singapore businesses. On the same date, McPherson's Limited Group exercised its put option over its 49% ownership in the Housewares Australia business. The divestment of the remaining shares generated proceeds of \$18.2 million.

## CORPORATE STRATEGY

McPherson's mission is to be a world-class consumer products company.

McPherson's strategy has been to substantially transform through acquisition / divestment, the establishment of new agency partnerships and channel expansions with the objective of diversifying away from margin constrained channels and increasing participation in channels with greater profit potential.

McPherson's 'makeover' has led to channel diversification, brand consolidation, cost rationalisation, a strengthened balance sheet and an emphasis on creating value for shareholders.

Immediate emphasis is being placed on consolidation and optimisation of fewer, bigger, better brands, with particular emphasis on the Group's portfolio of powerful Health & Beauty brands in the areas of 1) Essential Beauty; 2) Advanced Beauty and 3) Natural Beauty.

## 1. ESSENTIAL BEAUTY

The Manicare brand in Beauty Tools and the Lady Jayne brand in Hair Accessories are both market leading, powerful brands with mass distribution. Growth in Beauty Essentials will be achieved through new product innovation and channel expansion, supported by increased advertising investment in FY2017.

## 2. ADVANCED BEAUTY

The Dr. LeWinn's cosmeceutical skincare brand will achieve growth through new formulations and packaging; innovative new products; channel and market expansion; and significant advertising investment in FY2017.

## 3. NATURAL BEAUTY

The Akin natural skincare and haircare brand will benefit from new packaging; new products; channel and market expansion; and significant advertising investment in the second half of FY2017.

The company is investing substantially in its digital capability. With a focus on priority brands Manicare, Lady Jayne, Dr. LeWinn's and Akin, the content and ease-of-use of the new digital platform will facilitate more meaningful consumer relationships and stronger retailer partnerships, while also providing a convenient platform for direct consumer purchases.

The Chinese market represents a largely untapped growth opportunity for the company, particularly the Dr. LeWinn's skincare brand and Akin natural skincare/haircare brand. Management has diligently researched this opportunity

and determined a strategy to expand awareness of a select range of products that are well positioned to meet Chinese consumer demand for Australian beauty products. Commencing September 2016, the company will take its first steps to make its key brands available to Chinese consumers through various channels and it is expected that this initiative will gain momentum throughout the medium term.

Successful execution of these strategies will enable us to achieve our corporate vision which is "Making Life Easier" for:

- **CONSUMERS:** through high quality value for money branded products that improve their lives;
- **CUSTOMERS:** by providing retail solutions through McPherson's products and services;
- **SUPPLIERS:** through McPherson's growth;
- **EMPLOYEES:** through careers, rewards and recognition; and
- **SHAREHOLDERS:** through earnings growth.

# Review of Operations (Continued)

McPherson's 'makeover' has led to channel diversification, brand consolidation, cost rationalisation, a strengthened balance sheet and an emphasis on creating value for shareholders.

## RISK MANAGEMENT AND COMPLIANCE

The Board has ultimate responsibility for the oversight of risk management and compliance across the Group.

Risk is an integral part of the Group's decision-making process and all risks and opportunities are adequately and appropriately assessed to ensure that unreasonable risk exposures are minimised. The Group's risk and compliance frameworks ensure that all risks and compliance obligations are properly identified and managed, that insurances are adequate and that processes are in place to ensure compliance with regulatory requirements.

The Managing Director is accountable to the Board for the development and management of the Group's risk and compliance frameworks and is supported by the Chief Financial Officer in terms of adopting appropriate risk management and compliance processes, including regular and transparent reporting to the Audit, Risk Management and Compliance Committee. Each senior manager is responsible for the management of risk and compliance with relevant laws and regulations.

The key risks are identified in a Group risk analysis matrix which is used to:

1. Determine the effectiveness of controls to address risks assessed as extreme or high;
2. Isolate and report indicators of control effectiveness;
3. Isolate and report any recent incidents pertaining to the risk area;
4. Report recent action taken to improve risk management;
5. Isolate any areas for potential improvement;

6. Report how the Group's existing insurance program responds to each area of risk; and

7. Assist in prioritising areas of focus for internal audit.

The material risks that have potential to have an effect on the Group's financial prospects, and how the Group manages these risks, include:

- **REDUCTION IN CONSUMER DEMAND**  
Given McPherson's reliance on consumer spending, adverse changes to the general economic landscape in Australasia or consumer sentiment for the Group's products could impact its financial results. This risk is addressed through keeping abreast of economic and consumer data/research, innovative product development and brand building.
- **WORKPLACE HEALTH AND SAFETY**  
Given the physical nature of the Group's operations, workplace health and safety are of paramount importance. Significant effort and attention have been placed on internal policies and processes to ensure that employees are aware of their legal obligations and the productivity benefits that come from working safely. A tone of safety first is set at the top of the organisation and is reinforced through commitment of resources including a dedicated workplace health and safety officer.
- **FOREIGN CURRENCY FLUCTUATION**  
The Group sources the majority of its inventory in currencies other than Australian dollars, with the US dollar the predominant sourcing currency. Consequently, significant fluctuations in the AUD / USD currency cross can materially impact the Group's result. The Board has established, and regularly reviews, the Group's foreign currency hedging policy with the objective of mitigating short to medium term foreign currency risk.

- **RAW MATERIAL PRICE FLUCTUATION**  
A material proportion of the Group's inventory prices is influenced by movements in commodities such as resin and aluminium. Such commodity prices are denominated in US dollars and historically are correlated with movements in the AUD / USD cross. This correlation provides a degree of natural hedge against the profit impact of movements in the AUD / USD cross; consequently separate risk mitigation measures are not utilised to manage this risk.

- **LOSS OF A MAJOR CUSTOMER OR DERANGING OF A MAJOR PRODUCT RANGE**  
A significant proportion of the Group's sales is to two customers in the grocery channel. The delisting of a material product range by one of these customers could materially reduce McPherson's profitability. In order to mitigate this risk, the Group strives to provide superior customer service, product innovation and competitive pricing. It is also pursuing a strategy of channel diversification, as demonstrated by the recent acquisitions in Health & Beauty and Home Appliances.

- **DEFICIENCY IN PRODUCT QUALITY**  
As a supplier of branded consumer products to retailers, the Group has an exposure to product faults leading to liability claims and product recalls. To control this risk, the Group adopts stringent quality control and supplier verification procedures. In addition, it holds adequate product and public liability insurance and product recall insurance.



- **COMPLIANCE WITH DEBT FACILITY UNDERTAKINGS**

A significant portion of the Group's capital requirement is in the form of debt facilities supplied by Financial Institutions that require the Group to comply with various undertakings, including specific financial ratios or covenants, in order for the Group to continue to access facilities. The Group seeks to adopt a debt structure that in both quantum and terms, has sufficient capacity for it to withstand a short term decline in earnings or assets, that may impact its ability to meet its various debt facility undertakings.

- **CYBER SECURITY**

The Group places significant reliance 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, ransom ware or other form of attack could materially impact the Group's ability to transact and its results. The Group uses firewall monitoring software and anti-virus software to attempt 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 external review and input are implemented to ensure the effectiveness of 'cyber' controls to meet ever evolving threats of this nature.

# Board of Directors



**GRAHAM A. CUBBIN** B.Econ. (Hons)  
Independent Non-Executive Director  
and Chairman of the Board

## EXPERTISE AND EXPERIENCE

Mr Cubbin was appointed an Independent Non-Executive Director of McPherson's Limited on 28 September 2010 and was appointed Chairman of McPherson's Limited on 1 July 2015.

Mr Cubbin was a senior executive with Consolidated Press Holdings Limited (CPH) from 1990 until September 2005, including Chief Financial Officer for 13 years. Prior to joining CPH, Mr Cubbin held senior finance positions with a number of major companies, including Capita Financial Group and Ford Motor Company. Mr Cubbin has over 20 years experience as a Director and audit committee member of public companies in Australia and the United States.

## SPECIAL RESPONSIBILITIES

Chairman of the Board.

Member and Chairman of the Audit Risk Management and Compliance Committee Chairman until 18 November 2015 and member of the Nomination and Remuneration Committee.

## OTHER CURRENT DIRECTORSHIPS

Mr Cubbin is a Director of the ASX listed companies Challenger Limited, STW Communications Group Limited, Bell Financial Group Limited and White Energy Company Limited.

## FORMER DIRECTORSHIPS IN LAST THREE YEARS

None.

## INTERESTS IN SHARES AND PERFORMANCE RIGHTS

110,000 ordinary shares in McPherson's Limited. No performance rights held.



**PAUL J. MAGUIRE** B.Sc (Hons), M.Bus (Marketing)  
Managing Director

## EXPERIENCE AND EXPERTISE

Mr Maguire was appointed Managing Director of McPherson's Limited on 1 November 2009.

Mr Maguire was Chief Executive of Multix Proprietary Limited from 2002, and following the combining of McPherson's two consumer products businesses, McPherson's Consumer Products and Multix, into a single entity in July 2009, Mr Maguire took the position of Chief Executive of the enlarged business.

Before joining Multix (which was acquired by McPherson's in 2004), Mr Maguire worked in a number of management roles for SCA Hygiene Products Australasia. Mr Maguire has a Master of Business (Marketing) from Monash University and an Honours Science Degree from La Trobe University.

## SPECIAL RESPONSIBILITIES

Managing Director.

## OTHER CURRENT DIRECTORSHIPS

None.

## FORMER DIRECTORSHIPS IN LAST THREE YEARS

None.

## INTERESTS IN SHARES AND PERFORMANCE RIGHTS

2,433,143 ordinary shares in McPherson's Limited; and 767,000 performance rights over ordinary shares of McPherson's Limited.



**AMANDA M. LACAZE** BA  
Independent Non-Executive Director

## EXPERTISE AND EXPERIENCE

Ms Lacaze was appointed an Independent Non-Executive Director of McPherson's Limited on 22 September 2011.

Ms Lacaze has an extensive executive career as a chief executive and as a marketing executive. She is currently CEO and MD of Lynas Corporation Ltd. Previously she has been CEO and MD of Commander Communications, Executive Chairman of Orion Telecommunications, and CEO of AOL|7. Prior to these roles Ms Lacaze was Managing Director of Marketing at Telstra, and held various business management roles at ICI (now Orica). Ms Lacaze's early experience was in consumer goods with Nestlé.

## SPECIAL RESPONSIBILITIES

Member of the Audit Risk Management and Compliance Committee.

## OTHER CURRENT DIRECTORSHIPS

Non-Executive Director of ING Bank Australia Limited.  
Executive Director of Lynas Corporation.  
Director and member of Morgan Lacaze Consulting.

## FORMER DIRECTORSHIPS IN LAST THREE YEARS

None.

## INTERESTS IN SHARES AND PERFORMANCE RIGHTS

18,642 ordinary shares in McPherson's Limited.



**JANE M. MCKELLAR** MA – (Hons)  
Independent Non-Executive Director

**EXPERTISE AND EXPERIENCE**

Ms McKellar was appointed an Independent Non-Executive Director of McPherson's Limited on 23 February 2015.

Ms McKellar is an experienced international senior executive with extensive customer-focused, brand, marketing and digital experience across a number of high-profile, global brands.

Ms McKellar commenced her career at Unilever in London and her subsequent roles have included global CEO of Stila Corporation, USA; Managing Director of Elizabeth Arden Australia; Founding CEO of Excite.com Asia Pacific; Director of Sales and Marketing for Microsoft (MSN); and Founding Director of Ninemsn.

Ms McKellar has a Bachelor of Arts and a Master of Arts with Honours from the University of Aberdeen and is a MAICD.

**SPECIAL RESPONSIBILITIES**

Member and Chairman of the Nomination and Remuneration Committee.

**OTHER CURRENT DIRECTORSHIPS**

Non-Executive Director of Terry White Group. Non-Executive Director of Automotive Holdings Group. Non-Executive Director of Seachange Technologies Pty Ltd.

**FORMER DIRECTORSHIPS IN LAST THREE YEARS**

Non-Executive Director of Helloworld Limited.

**INTERESTS IN SHARES AND PERFORMANCE RIGHTS**

None.



**MARGARET PAYN** BA – (Hons)  
Independent Non-Executive Director

**EXPERTISE AND EXPERIENCE**

Ms Payn was appointed an Independent Non-Executive Director of McPherson's Limited on 12 October 2015.

Ms Payn is an experienced senior executive with extensive experience in strategy, finance and operations in global financial institutions. Beginning her career with KPMG in London, she subsequently held senior finance, strategy, risk and operations roles in major financial institutions including ANZ, Schroders, Citigroup, State Street and Westpac – in Australia, the UK and Asia. She is currently the Chief Financial Officer and Chief Operating Officer at AMP Capital.

Ms Payn has a Bachelor of Arts with Honours from University College London; she is a Fellow of the Institute of Chartered Accountants in England and Wales.

**SPECIAL RESPONSIBILITIES**

Member and Chairman (from 18 November 2015) of the Audit Risk Management and Compliance Committee.

**OTHER CURRENT DIRECTORSHIPS**

Non-Executive Director of Evergen Pty Ltd.

**FORMER DIRECTORSHIPS IN LAST THREE YEARS**

None.

**INTERESTS IN SHARES AND PERFORMANCE RIGHTS**

None.

## Company Secretaries



**PHILIP R. BENNETT** B.COM, CA  
Joint Company Secretary

Mr Bennett was appointed Company Secretary of McPherson's Limited on 2 February 2012. Mr Bennett had previously held the position of Chief Financial Officer of McPherson's Limited since 2000, and Company Secretary from 1995; however Mr Bennett stepped down from both these positions in November 2011. Mr Bennett is a Chartered Accountant and has a Commerce degree from the University of Melbourne. Before joining McPherson's, Mr Bennett held senior financial and company secretarial positions with another listed company, and prior to that was a senior manager with a major Australian chartered accounting firm.



**PAUL WITHERIDGE** B.COM, CA  
Chief Financial Officer and  
Joint Company Secretary

Mr Witheridge was appointed Chief Financial Officer and Joint Company Secretary of McPherson's Limited on 1 December 2011. In May 2010 Mr Witheridge was appointed the Chief Financial Officer of McPherson's Consumer Products Pty Ltd. Mr Witheridge is a Chartered Accountant and has a Commerce degree. Before joining McPherson's, Mr Witheridge held senior financial and company secretarial positions with a number of listed companies in the retail sector including Angus and Coote Limited and OPSM Limited. Prior to that Mr Witheridge spent six years within KPMG's Audit and Assurance Practice.



Lady Jayne®  
since 1928



**DR. LEWINN'S**  
**TOP RATED PRODUCTS**

**DR. LEWINN'S®**

**[A'kin]®**



# Category Overview

Health & Beauty is well placed to capitalise on its consolidation of brands and rationalisation of products in the coming financial year. Home Appliances has generated significant savings through its product sourcing projects and Household Consumables, via the Multix brand, continues to maintain market leadership.

## Health & Beauty

McPherson's is the proud owner of an enviable portfolio of market leading brands, with a strategic focus on building fewer, bigger, better brands across a broader range of channels. FY16 saw an increase in investment on consumer insights, innovation, communication, encouraging continued growth within the beauty marketplace.

Focusing on building more brand awareness around our key pillar brands, Dr. LeWinn's, Akin, Manicare and Lady Jayne, FY17 will continue to build on this success and see not only a continued, but improved investment allowing for more innovation, larger consumer campaigns and successful channel growth, including but not limited to, the Digital area.



# Health & Beauty (Continued)



## MANICARE

Manicare continues to be Australia's leading beauty tools and accessories brand, this year with strong innovation and building consumer awareness, Manicare led category growth.

During the summer of 2015, Manicare's collaboration with the Australian swimwear company We Are Handsome saw the brand create an exciting limited edition collection of beauty accessories. This collection allowed Manicare to add excitement to this category and record strong growth in sales.

Recognising the need for a more comprehensive range of cosmetic brushes, Manicare worked with one of Australia's most sought after celebrity make-up artists' Liz Kelsh to develop the next generation in cosmetic brushes. Liz Kelsh, who has worked with some of the most recognisable names in beauty, fashion and film, worked closely with McPherson's on product design,

providing expert tips and video tutorials on how to use this exciting new range of brushes and exposed the brand to more beauty enthusiasts looking to achieve the latest make-up looks with Manicare.

These two exciting opportunities were complemented by Glam by Manicare's continued success as Australia's number one artificial lash brand. Glam by Manicare's quick response to trends and high quality innovation allows it to compete in the artificial lash category, an important inclusion based on the ongoing double digit growth experienced by this category within this beauty market.

## LADY JAYNE

With the introduction of Flexi-Coil™ technology the launch of the Lady Jayne Stylegurd™, was highly successful and allowed Lady Jayne to continue to lead the Hair Accessory category within the Pharmacy channel. This coupled with both building on the popularity of the Lady Jayne Smooth & Knotless detangling brush with a refreshed look with new colours and sizes, and the introduction of the Metallic Blush fashion range, added style and sophistication to the Lady Jayne brand.



## DR. LEWINN'S

Dr. LeWinn's is currently the number one cosmeceutical facial skincare brand within Australian pharmacies. Following on from the success of Eternal Youth which allowed Dr. LeWinn's to appeal to a more modern, youthful consumer, Dr LeWinn's has expanded its range with Eternal Youth Luminosity. This innovative new range has been developed to improve radiance and brightness for a more youthful appearance.

In early FY17, Dr. LeWinn's appointed brand ambassador, Australian actress Anna Bamford. Through this exciting campaign and with the assistance of other influential voices within the beauty space, Dr LeWinn's will continue to encourage women to harness their natural "glow" through the brightening and illuminating powers of Eternal Youth Luminosity.

## AKIN

Australia continues to see growth within the Natural facial skincare category, as this growth continues so does the success of our own natural skincare brand Akin and agency brand Trilogy. With this continued growth, McPherson's will increase investment in the Akin brand in the coming financial year. The aim is to give the brand a strong position and purpose within the category.

During FY16, Akin developed and launched the Akin Rosehip oil with Vitamin C, specifically developed to brighten overall skin tone and texture, while reducing the appearance of sun damage and pigmentation. The product has been well received in market and has provided the opportunity to extend this success to other new product initiatives.



Euromaid



**Multix**  
The  
**Clever Cook**



# Home Appliances

During FY16, Home Appliances further established itself as a significant supplier in the 540 freestanding cooker category. In addition to its existing open market models it successfully launched new and exclusive models for both Harvey Norman and The Good Guys respectively. The pre Christmas 2015 launch was supported by a significant investment in instore displays and point of sale material. The 540 range has been well received by the customers and has cemented Home Appliances as a leading supplier in the upright cooking market.

Following on from the successful release of the innovative Black Pearl range under the Euromaid brand in late 2014, this was further complimented by the launch of a range of extra large capacity multi function, programmable ovens in late 2015.

This includes a self cleaning pyrolytic oven. The entire Euromaid Black Pearl range is exclusive to Harvey Norman and continues to grow strongly.

At the start of FY16 Home Appliances ventured into a new retail market with the introduction of a range of cooking products into JB Hi-Fi Home stores on a national basis. Each store has a branded bay featuring the products and point-of-sale material highlighting core product features, the Euromaid branding story and additional products not ranged on the floor. Building on this success a range of Baumatic Studio Solari built-in cooking products have recently been displayed in several selected Home stores with a view to expanding the rollout in the future.

Following the dishwasher range consolidation in 2015, this category has grown strongly during FY16. The unique selling features of the range being brushless motors, extra cutlery tray and an active fan drying system continue to be well received by the market.

During FY16 Home Appliances launched an expanded range of cooktops under the Euromaid brand. In October 2015 a full range of gas on glass cooktops were added to the existing stainless steel range featuring electronic ignition, cast iron trivets and flame failure devices. In addition to this in November 2015 Home Appliances expanded and improved its induction cooktop offering with the introduction of several new models including multi-zone functionality.

# Household Consumables

Multix enjoys strong relationships and product ranging with all of the major supermarket retailers in Australia. In addition, product is available in Discount Department stores, online retailers such as 'Catch of the Day' and some Foodservice outlets.

Our range of products play a key role in the lives of everyday Australians, helping them with food preparation, storage and disposal.

The Multix 'Clever Cook' social media program continues with its success with almost 140,000 people following us on Facebook. We are regularly providing video posts and providing our consumers with great recipes, and tips on how to use our products.

Trading conditions in supermarkets continue to be challenging, and during FY16 we withdrew from some private label business which was not profitable. We continue to work closely with our customers and consumers to develop

products which make life easier. This year we launched portion control plastic resealable bags, and an extension to our range of baking aid products.

During the year we had some cost relief for the products which have benefitted from the CHAFTA removal of duty tax. This has reduced the requirement for processing price increases to our customers.

# Corporate Governance Statement

The Board of Directors is committed to achieving and demonstrating the highest standards of corporate governance. This is considered to be essential for the long term performance and sustainability of the Group, and to protect and enhance the interests of shareholders and other key stakeholders.

The Board regularly reviews the Group's governance arrangements, as well as developments in market practice, expectations and regulation. Subject to the exceptions as noted in the Group's Corporate Governance Statement, the Group's corporate governance arrangements conform to the Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) issued by the ASX Corporate Governance Council ("ASX Corporate Governance Principles").

The exceptions relate to the composition of the Audit Risk Management and Compliance Committee (from 1 July 2015 to 18 November 2015) and the Nomination and Remuneration Committee (from 1 July 2015 to 29 October 2015) as a consequence of a temporary Board vacancy. The exceptions were remedied as soon as possible after an additional non-executive director was appointed.

The Corporate Governance Statement has been approved by the Board and is current as at 20 September 2016. The statement outlines the Group's main corporate governance practices in place during the financial year ended 30 June 2016, and currently. A copy of the Group's Corporate Governance Statement can be found in the Corporate Governance section of the McPherson's Limited website which is located at [www.mcphersons.com.au/corporate-governance](http://www.mcphersons.com.au/corporate-governance).

# Financial Report

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# Directors' Report

The Board of Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of McPherson's Limited and the entities it controlled at the end of, or during, the year ended 30 June 2016.

## (A) DIRECTORS

The following persons were Directors of McPherson's Limited from the beginning of the financial year to the date of this report:

G.A. Cubbin (and as Chairman of the audit Risk Management Committee until 18 November 2015), P.J. Maguire, A.M. Lacaze and J.M. McKellar.

P.M. Payn (appointed as a non-executive Director on 12 October 2015 and as Chairman of the Audit Risk Management and Compliance Committee on 18 November 2015).

## (B) PRINCIPAL ACTIVITIES

McPherson's, established in 1860, is a leading supplier of health & beauty, consumer durable and household consumable products in Australasia, with operations in Australia, New Zealand and Asia. The Health & Beauty Division markets and distributes beauty care, hair care, skincare and fragrance product ranges; the Home Appliance Division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers; and the Household Consumables Division markets and distributes kitchen essentials such as plastic bags, baking paper, cling wrap and aluminium foil.

The majority of revenue is derived from the Company's diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Swisspers, Moosehead, Maseur, Euromaid, Baumatic and Multix. McPherson's also manages some significant brands for overseas agency partners such as Trilogy, Gucci, Dolce&Gabbana and Hugo Boss Fine Fragrances.

During the year the Group divested its 49% stake in its Housewares Joint Venture with the Fackelmann Group.

## (C) DIVIDENDS

Details of dividends paid or declared in respect of the current financial year are as follows:

	<b>\$'000</b>
Interim ordinary dividend of 6.0 cents per fully paid ordinary share paid on 7 April 2016 (fully franked)	5,860
Final ordinary dividend of 2.0 cents per fully paid ordinary share declared by Directors (fully franked) and payable on 8 November 2016 but not recognised as a liability at year end	2,066
<b>Total dividends in respect of the year</b>	<b>7,926</b>

The 2015 final ordinary dividend of \$1,947,000 (2.0 cents per fully paid ordinary share) referred to in the Directors' Report dated 10 September 2015 was paid on 10 November 2015.

## (D) CONSOLIDATED RESULTS

The consolidated profit after tax of the Group for the year ended 30 June 2016 was \$11,001,000 (2015: \$8,840,000). The current year profit after tax is inclusive of significant items amounting to a net expense after tax of \$2,437,000 (2015: net expense after tax \$3,122,000). Refer to Note 5(b) significant items for further information.

Excluding significant items, the consolidated profit after tax for the year ended 30 June 2016 was \$13,438,000 (2015: \$11,962,000).

## (E) REVIEW OF OPERATIONS

The review of operations of the Group is contained in the Chairman's Report on pages 4 to 5 and the Review of Operations on pages 6 to 11 of the Annual Report and forms part of this Directors' report.

## (F) SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

On 1 July 2015, the Group sold 51% of its New Zealand Housewares business to the Fackelmann Group for NZ\$2,279,000. The consideration received was equal to the adjusted carrying value of the net assets disposed. The Group's New Zealand Housewares business was disclosed as held for sale at 30 June 2015.

On 31 March 2016, the Group divested its remaining 49% share in the Housewares business to the Fackelmann Group. Refer to Note 14(a) for further details. Of the net proceeds from the divestment, \$10.0m (inclusive of accrued interest) has been applied to reduce debt, \$5.0m against unsecured variable rate corporate bonds and \$5.0m against unsecured fixed rate corporate bonds.

During the current year, the Group has settled the terms of the financial consideration payable for the Dr. LeWinn's and Revitanail acquisition. As such, \$1,907,000 (including related stamp duty) has been capitalised to the carrying amount of the brandnames. Refer to Note 16.

During the financial year, the Group has undertaken a brand product rationalisation in the Health & Beauty division. This review has resulted in a significant increase in the provision for stock obsolescence. In addition, a further provision was raised as part of the Impulse Merchandising division exit in July 2016.

## (G) EVENTS SUBSEQUENT TO BALANCE DATE

Mr Paul Maguire, the Group's Managing Director, announced his retirement on 22 August 2016 with effect from the conclusion of the Annual General Meeting on 21 November 2016. Mr Maguire's successor has been appointed and will commence with the Group on 1 November, and after a transition period will be appointed Managing Director on 21 November 2016.

No other matter or circumstance, other than has been noted above, has arisen since 30 June 2016 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

## (H) LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

In the opinion of the Directors, it would prejudice the interests of the Group to include additional information, except as noted above, and as reported elsewhere in the Directors' Report and the financial statements, which relates to likely developments in the operations of the Group and the expected results of these operations in financial periods subsequent to 30 June 2016.

## (I) INFORMATION ON DIRECTORS

The following information is up to date at the date of this report.

Particulars of the qualifications, experience and special responsibilities of each Director as at the date of this report are set out on pages 12 to 13 of the Annual Report and form part of this Directors' Report.

The interests of Directors in the share capital of the parent entity or in a related entity are contained in the register of Directors' shareholdings of the Company as at the date of this report and are set out on pages 12 to 13 of the Annual Report and form part of this Directors' Report.

### Meeting of Directors

The number of Board, Audit Risk Management and Compliance, and Nomination and Remuneration Committee meetings held during the year ended 30 June 2016, and the number of meetings attended during that period by each Director, are set out below:

Director	BOARD MEETINGS		AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE MEETINGS		NOMINATION AND REMUNERATION COMMITTEE MEETINGS	
	Held	Attended	Held	Attended	Held	Attended
Graham A. Cubbin	12	12	4	4	2	2
Paul J. Maguire	12	12	n/a	n/a	n/a	n/a
Amanda M. Lacaze	12	12	4	4	n/a	n/a
Jane M. McKellar	12	12	n/a	n/a	2	2
Patricia M. Payn <sup>1</sup>	6	5	3	3	1	1

<sup>1</sup> Ms Payn was appointed a Non-Executive Director on 12 October 2015, a member of the Audit Risk Management and Compliance Committee on 29 October 2015, Remuneration and Nomination Committee on 29 October 2015 and Chairman of the Audit Risk Management and Compliance Committee on 18 November 2015.

## (J) COMPANY SECRETARIES

Particulars of the qualifications and experience of the Company Secretaries are set out on page 13 of the Annual Report and form part of this Directors' Report.

# Directors' Report (Continued)

## (K) REMUNERATION REPORT

The McPherson's Limited 2016 remuneration report sets out key aspects of the Company's remuneration policy and framework, and provides details of the remuneration awarded to the Company's non-executive Directors, Managing Director and other key management personnel.

The remuneration report contains the following sections:

- Key management personnel (KMP) covered in this report
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Contractual arrangements for executive KMP
- Share-based compensation
- Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

### Key management personnel covered in this report

#### Directors

The following persons were Directors of McPherson's Limited during the financial year:

#### Chairman (Non-executive)

G.A. Cubbin

#### Executive Director

P.J. Maguire – Managing Director

#### Non-executive Directors

A.M. Lacaze

J.M. McKellar

P.M. Payn (appointed 12 October 2015)

#### Other key management personnel

In addition to the Directors noted above, the following Group executives were also considered to be key management personnel during the financial year:

Name	Position
S.K.S. Chan	Managing Director, McPherson's Hong Kong
P. Witheridge	Chief Financial Officer and Company Secretary
S.R. Rorie	Chief Executive Officer, Home Appliances Pty Ltd

#### Changes since the end of the reporting period

Refer to note (g) of the Directors' Report for details of changes since the end of the reporting period.

## (K) REMUNERATION REPORT (CONTINUED)

### Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for the delivery of rewards. The Board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

- Competitiveness and reasonableness;
- Acceptability to shareholders;
- Performance linkage/alignment of executive compensation;
- Transparency; and
- Capital management.

McPherson's Limited has a remuneration policy and structure that is equitable, competitive and consistent so as to ensure the recruitment and retention of personnel of the capability, competence and experience necessary for the achievement of the Group's strategies and goals.

The remuneration framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives.

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current year.

The following table summarises the performance of the Group over the last five years:

	2016	2015	2014 <sup>1</sup>	2013	2012
Statutory profit/(loss) after tax for the year (\$'000)	11,001	8,840	(67,039)	(33,319)	17,028
Profit after tax – excluding significant items	13,438	11,962	14,252	13,057	18,665
Basic earnings per share (cents)	11.1	9.2	(72.4)	(43.2)	23.5
Basic earnings per share – excluding significant items (cents)	13.6	12.4	15.4	16.9	25.4
Dividends declared for the relevant financial year (\$'000)	7,926	7,748	10,412	14,652	12,308
Dividend payout ratio as a percentage of statutory profit (%)	72.1	87.6	n/m <sup>2</sup>	n/m <sup>2</sup>	72.3
Dividend payout ratio as a percentage of profit excluding significant items (%)	59.0	64.8	73.1	112.2	65.9
Increase/(decrease) in share price (%)	54.9	(48.4)	(13.1)	(21.3)	(40.1)
Total KMP incentives as percentage of statutory profit/(loss) for the year (%)	0.8	4.9	(0.2)	(0.3)	2.4
Total KMP incentives as percentage of profit after tax excluding significant items (%)	0.7	3.6	0.8	0.7	2.2

1 See Note 1(a) of the FY15 financial statements for details regarding restatement as a result of an error.

2 Ratio not considered meaningful due to statutory loss after tax recognised for the year.

### Use of Remuneration Consultants

During the year remuneration consultant Guerdon Associates was engaged to provide advice to the Board's Nomination and Remuneration Committee regarding the Group's short term incentive plans and for external remuneration benchmarking purposes.

# Directors' Report (Continued)

## (K) REMUNERATION REPORT (CONTINUED)

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee is comprised of independent non-executive Directors. The Committee has been established by the Board of Directors to annually review, evaluate and make recommendations to the Board in relation to remuneration, including:

- Non-executive Director remuneration;
- Staff incentive plans proposed by the Managing Director, including bonus, share, option and performance rights plans, and the basis of their application;
- Salary, benefits and total remuneration packages of the Managing Director and other senior executives; and
- Substantial changes to the principles of the Company's superannuation arrangements.

### Non-executive Directors

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Remuneration of non-executive Directors is determined by the Board within an aggregate non-executive Directors' fee pool limit which is periodically recommended for approval by the shareholders. The aggregate was last considered by shareholders at the Annual General Meeting in 2010 when a total remuneration of \$550,000 inclusive of superannuation was approved. Including superannuation guarantee contributions made on their behalf by the Company, non-executive Director remuneration for the year ended 30 June 2016 totalled \$377,805 (2015: \$390,597).

Non-executive Directors are not entitled to participate in any incentive scheme, nor are they eligible to receive share options or performance rights.

The current base remuneration of individual non-executive Directors was last reviewed by the Nomination and Remuneration Committee on 21 September 2015, at which time non-executive Director fees remained the same as the prior financial year. The Chairman and other non-executive Directors receive additional fees for their membership of the Board's Audit Risk Management and Compliance Committee. The Chairman of the Nomination and Remuneration Committee also receives an additional fee, however the members of that committee do not. Directors may direct the Company to make superannuation guarantee contributions, or additional superannuation contributions allocated from their Directors' or committee membership fees, to any complying nominated superannuation fund.

At the Annual General Meeting of shareholders held on 7 November 1997, shareholders authorised the Company to enter into agreements with Directors (called "Director's Deeds") which set out certain rights and obligations of the Director. The Directors' Deeds do not reflect a fixed term of appointment as Directors are subject to retirement and re-election by shareholders at least every three years.

The following fees applied for the year ended 30 June 2016 and continue to apply at the date of this report:

	<b>From 1 July 2015</b>
<b>Base fees</b>	
Chairman	\$131,130
Other non-executive Directors	\$68,845
<b>Additional fees</b>	
Audit Risk Management & Compliance Committee – Chairman	\$8,745
Audit Risk Management & Compliance Committee – Member	\$5,460
Nomination & Remuneration Committee – Chairman	\$8,745

The above amounts exclude company superannuation guarantee contributions payable on behalf of Directors at a rate of 9.50% on the base fees and additional fees.

## **(K) REMUNERATION REPORT (CONTINUED)**

### **Executive remuneration**

The executive remuneration and reward framework has five components:

- Base pay and benefits;
- Short-term performance incentives;
- Long-term incentives;
- Superannuation; and
- Performance assessment.

### **Base pay and benefits**

Base pay is structured as a package amount which may be delivered as cash, prescribed non-cash financial benefits including motor vehicles and additional superannuation contributions at the executive's discretion. Base pay is reviewed annually to reflect increases in responsibility and to ensure that the executive's pay is competitive in the market for a comparable role. There are no guaranteed base pay increases included in any senior executives' contracts.

### **Short-term performance incentives (STI)**

Short-term incentives in the form of cash bonuses are available to senior executives providing the Company, operating division or business most closely aligned with the executive's area or areas of responsibility achieve or exceed pre-determined profit targets because this ensures that variable reward is only available when value has been created for shareholders and when profit and other targets are consistent with or exceed the business plan. For senior executives the maximum target bonus opportunity is usually 50% of the base package amount.

Each year the Nomination and Remuneration Committee considers the appropriate targets and key performance indicators together with the level of payout if targets are met or exceeded. The 2016 STI targets were primarily based on Group or divisional earnings before interest and tax (EBIT) outcomes for the financial year, excluding significant items adjusted for actual funds employed outcomes compared with budget.

An assessment regarding eligibility for a cash bonus is made by reference to actual performance outcomes when these are known following the conclusion of the financial year. Short-term incentives are normally payable in September following the end of the financial year to which the incentive relates. Based on the Group's profit performance in the current year the Nomination and Remuneration committee has determined that the Managing Director and Chief Financial Officer are both eligible for a cash bonus relating to the profit performance component for the current year.

From time-to-time additional short-term cash bonuses are paid to senior executives in relation to the achievement of specific outcomes associated with certain significant events. Examples of such events may include, among others, achieving a required divestment outcome, completing a significant restructure project or completing a refinancing of the business. The Nomination and Remuneration Committee is responsible for determining when such bonus payments are applicable and the amount to be paid. During the current year the Nomination and Remuneration committee has determined that no senior executive is eligible for an additional short-term cash bonus.

Subject to the discretion of the Nomination and Remuneration Committee, the maximum likely short-term incentive payable to a senior executive in future years is 50% of the executive's base salary package amount. The minimum payable would be zero in cases where the specified performance targets are not achieved.

### **Long-term incentives (LTI)**

Long-term incentives are provided to executives to focus them on delivering long-term shareholder returns. During the current year the Company continued with its performance rights plan (The McPherson's Limited Employee Performance Rights Plan) to provide long-term incentives to executives. Under this plan, participants are granted performance rights which only vest if certain performance conditions (relating to compound annual growth in earnings per share – refer to pages 31 to 32 for further information) are met and the executive is still employed by the Group at the end of the vesting period. Participation in the plan is at the discretion of the Nomination and Remuneration Committee and no individual has a contractual right to receive any guaranteed benefits. The maximum LTI opportunity for the Managing Director and other selected senior executives is 50% and 20% of the base package amount respectively.

Further information regarding share-based compensation in the form of performance rights is contained later in the Remuneration Report on pages 31 to 32.

# Directors' Report (Continued)

## (K) REMUNERATION REPORT (CONTINUED)

### Executive remuneration (continued)

#### Superannuation

Retirement benefits are delivered by a number of superannuation funds selected by the Company or the executive. Executives receive superannuation contributions in accordance with Superannuation Guarantee Charge (SGC) rules. However, executives may also direct the Company to make additional superannuation contributions allocated from their base package amount, to any complying nominated superannuation fund. The funds selected provide post-employment benefits to executives and other employees on an accumulation basis.

#### Performance assessment

The Company has a formal documented process for the performance evaluation of Directors and senior executives, which requires that a review takes place on an annual basis. A performance assessment took place during the year for Directors, including the Managing Director, and other senior executives.

#### Voting and comments made at the Company's 2015 Annual General Meeting

Of the total votes cast in relation to the adoption of the 2015 remuneration report by shareholders present at the AGM and by proxy, 88.2% voted in favour of the resolution. A number of general questions relating to remuneration and the 2015 remuneration report were asked by shareholders at the 2015 AGM, which were appropriately responded to by the Chairman and other non-executive directors at the meeting.

#### Details of remuneration

##### Amounts of remuneration

Details of the remuneration of the Directors of McPherson's Limited and the other key management personnel of McPherson's Limited and the McPherson's Limited Group for the current and previous financial years are set out in the following tables.

2016	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	Total
	Cash Salary & Fees <sup>1</sup>	Cash Bonus <sup>2</sup>	Non-monetary Benefits <sup>3</sup>	Super-annuation	Long-Service Leave	Performance Rights	
Name	\$	\$	\$	\$	\$	\$	\$
<b>Directors of McPherson's Limited</b>							
G.A. Cubbin (Chairman)	137,848	-	-	13,096	-	-	150,944
P.J. Maguire (Managing Director)	491,073	59,000	30,247	35,000	27,071	5,044	647,435
A.M. Lacaze <sup>5</sup>	74,304	-	-	7,059	-	-	81,363
J.M. McKellar	74,034	-	-	10,927	-	-	84,961
P.M. Payn <sup>4</sup>	55,286	-	-	5,252	-	-	60,538
<b>Total Directors' Remuneration 2016</b>	<b>832,545</b>	<b>59,000</b>	<b>30,247</b>	<b>71,334</b>	<b>27,071</b>	<b>5,044</b>	<b>1,025,241</b>
<b>Other Group Key Management Personnel</b>							
S.K.S. Chan	496,218	-	-	45,148	-	-	541,366
P. Witheridge	316,654	35,500	-	37,083	9,944	1,222	400,403
S.R. Rorie <sup>6</sup>	422,122	-	-	30,000	1,578	18,133	471,833
<b>Total Other Key Management Personnel Remuneration 2016</b>	<b>1,234,994</b>	<b>35,500</b>	<b>-</b>	<b>112,231</b>	<b>11,522</b>	<b>19,355</b>	<b>1,413,602</b>
<b>Total Remuneration 2016 - Group</b>	<b>2,067,539</b>	<b>94,500</b>	<b>30,247</b>	<b>183,565</b>	<b>38,593</b>	<b>24,399</b>	<b>2,438,843</b>

- Cash salary and fees includes movements in the annual leave provision relating to the Managing Director and other executive key management personnel.
- Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution. Refer to page 30 for further information on bonuses awarded.
- Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax and allowances.
- P.M. Payn was appointed as a Non-Executive Director on 12 October 2015. Ms Payn was appointed as a member of the Nomination & Remuneration Committee and a member of the Audit Risk Management & Compliance Committee on 29 October 2015, and was appointed Chairman of the Audit Risk Management & Compliance Committee on 18 November 2015.
- From 1 June 2016, A.M. Lacaze fees are paid via a related party, Morgan Consulting Pty Ltd. Refer to the Related Party, Note 33 for further details.
- S.R. Rorie as the Chief Executive Officer of Home Appliances Pty Ltd is deemed a KMP since his appointment on 1 July 2015.

## (K) REMUNERATION REPORT (CONTINUED)

### Details of remuneration (continued)

#### Amounts of remuneration (continued)

2015	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	Total \$
	Cash Salary & Fees <sup>1</sup> \$	Cash Bonus <sup>2</sup> \$	Non-monetary Benefits <sup>3</sup> \$	Super-annuation \$	Long-Service Leave \$	Performance Rights \$	
Name							
<b>Directors of McPherson's Limited</b>							
D.J. Allman (Chairman) <sup>4</sup>	125,819	-	-	22,491	-	-	148,310
P.J. Maguire (Managing Director)	593,382	275,000	27,752	25,000	30,645	(11,496)	940,283
G.A. Cubbin <sup>5</sup>	76,937	-	-	7,238	-	-	84,175
A.M. Lacaze	73,681	-	-	7,000	-	-	80,681
J.P. Clifford <sup>6</sup>	45,186	-	-	4,293	-	-	49,479
J.M. McKellar <sup>7</sup>	25,527	-	-	2,425	-	-	27,952
<b>Total Directors' Remuneration 2015</b>	<b>940,532</b>	<b>275,000</b>	<b>27,752</b>	<b>68,447</b>	<b>30,645</b>	<b>(11,496)</b>	<b>1,330,880</b>
<b>Other Group Key Management Personnel</b>							
S.K.S. Chan	454,751	-	-	42,588	-	(17,940)	479,399
G.P. Mitchell <sup>8</sup>	259,953	-	31,108	24,083	1,870	-	317,014
C. J. Muir <sup>9</sup>	224,613	25,013	32,216	35,521	2,848	(2,216)	317,995
P. Witheridge	326,350	155,000	-	35,000	6,105	(2,742)	519,713
<b>Total Other Key Management Personnel Remuneration 2015</b>	<b>1,265,667</b>	<b>180,013</b>	<b>63,324</b>	<b>137,192</b>	<b>10,823</b>	<b>(22,898)</b>	<b>1,634,121</b>
<b>Total Remuneration 2015 - Group</b>	<b>2,206,199</b>	<b>455,013</b>	<b>91,076</b>	<b>205,639</b>	<b>41,468</b>	<b>(34,394)</b>	<b>2,965,001</b>

1 Cash salary and fees includes movements in the annual leave provision relating to the Managing Director and other executive key management personnel.

2 Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution. Refer below for further information on bonuses awarded.

3 Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax and allowances.

4 On 1 July 2015 Mr Allman resigned as Chairman and as a Non-Executive Director.

5 On 1 July 2015 Mr Cubbin was appointed Chairman of McPherson's Limited.

6 Mr Clifford resigned as a Non-Executive Director on 23 February 2015.

7 Ms McKellar was appointed as a Non-Executive Director on 23 February 2015.

8 Mr Mitchell left the Group on 1 July 2015 as a result of the Group's divestment of its New Zealand Housewares business

9 Mr Muir left the Group on 31 July 2015, not deemed KMP for the month of July.

Amounts disclosed as remuneration of Directors and executives exclude premiums paid by the Group in respect of Directors' and Officers' liability insurance contracts. Further information relating to these insurance contracts is set out in paragraph (m) of the Directors' Report.

### Relative proportions of remuneration

The relative proportions of remuneration that are linked to performance and those that are fixed are set out in the table below:

Long term incentives relating to performance rights form part of the remuneration amounts as disclosed in this report. There were no other option related amounts included in the current or prior year remuneration.

Name	FIXED REMUNERATION		AT RISK - STI		AT RISK - LTI	
	2016	2015	2016	2015	2016	2015
<b>Executive Director of McPherson's</b>						
P.J. Maguire	<b>90%</b>	72%	<b>9%</b>	29%	<b>1%</b>	(1%)
<b>Other key management personnel of the Group</b>						
S.K.S. Chan	<b>100%</b>	104%	-	-	-	(4%)
P. Witheridge	<b>91%</b>	69%	<b>9%</b>	32%	-	(1%)
S.R. Rorie	<b>96%</b>	n/a	-	n/a	<b>4%</b>	n/a

# Directors' Report (Continued)

## (K) REMUNERATION REPORT (CONTINUED)

### Performance based remuneration granted and forfeited during the year

The following table shows for each KMP how much of their 2016 STI cash bonus was awarded and how much was forfeited. The table also shows the value of performance rights granted during the year.

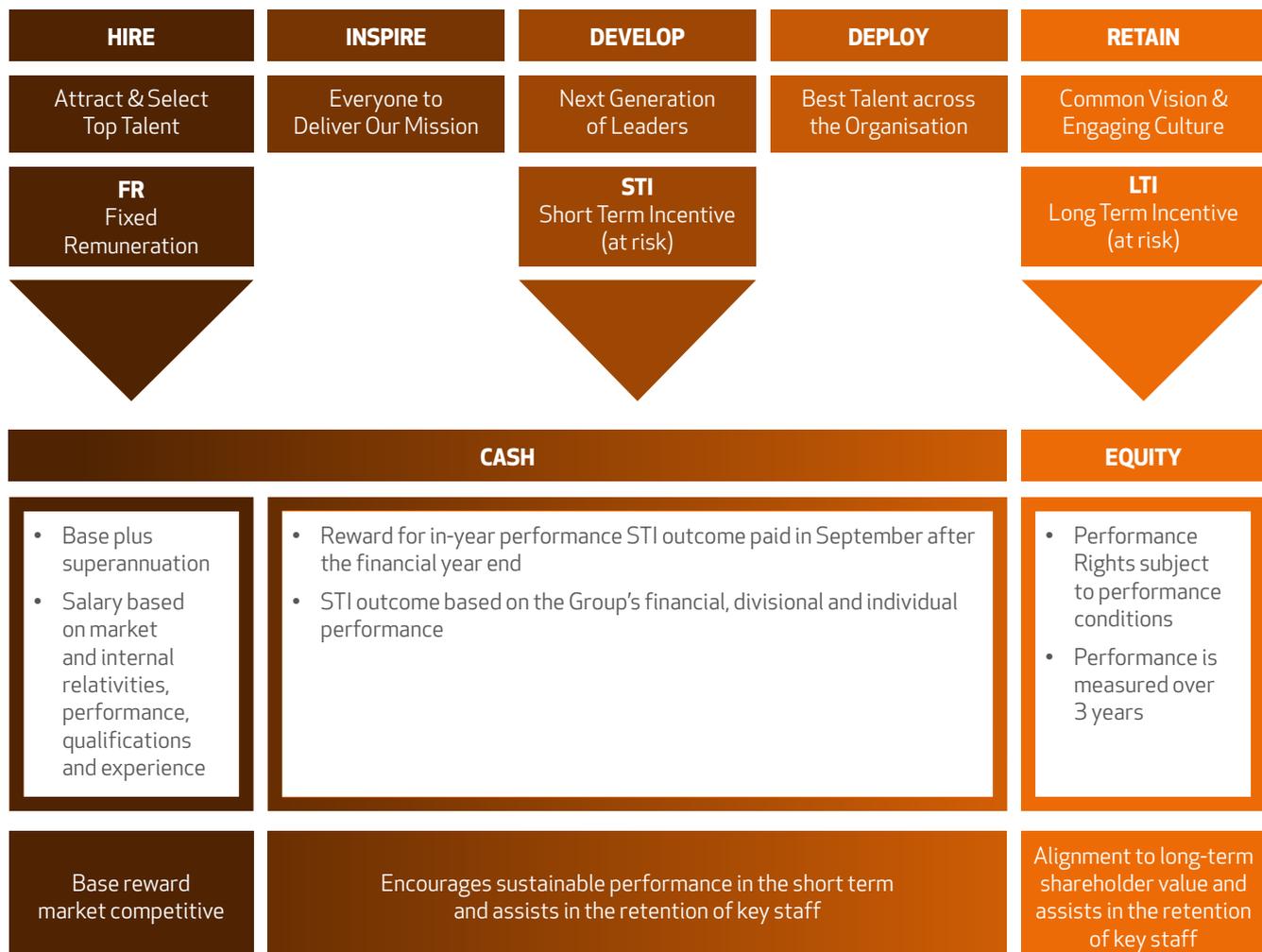
Name	STI CASH BONUS <sup>1</sup>			LTI PERFORMANCE RIGHTS		
	Total Opportunity \$	Awarded %	Forfeited %	Value Granted \$	Value Exercised \$	Value Forfeited \$
<b>Executive Director of McPherson's</b>						
P.J. Maguire	295,000	59,000	80%	237,500	-	56,042
<b>Other key management personnel of the Group</b>						
S.K.S. Chan	245,088	-	100%	-	-	n/a
P. Witheridge	177,500	35,500	80%	57,000	-	13,439
S.R. Rorie	219,000	-	100%	70,500	-	n/a

1 The STI bonus amounts disclosed above relate only to the regular annual STI bonuses plan.

Separate to the above, during the year no bonus payments were made to any KMP other than the Managing Director and Chief Financial Officer.

### Remuneration structure of executive key management personnel

Our remuneration structure as follows, is designed to support our remuneration strategy and is consistent for our executive key management personnel.



## (K) REMUNERATION REPORT (CONTINUED)

### Contractual arrangements for executive KMP

Remuneration and other terms of employment for the Managing Director and other key management personnel are formalised in employment agreements. Each of these agreements set out details of the base package amount, usually inclusive of superannuation and motor vehicle benefits, and provide for performance related cash bonuses and other benefits. The agreements also provide for participation, when eligible, in the McPherson's Limited Employee Share/Option Purchase Plan and Performance Rights Plan.

The agreements do not normally reflect a fixed term of employment or nominate a specified amount to be paid on termination of employment. The agreements normally provide that the termination notice period may be paid out by the Company.

The major provisions of the employment agreements relating to remuneration for the executives considered to be key management personnel are set out below.

Name	Term of agreement	Base salary including superannuation and motor vehicle benefits*	Termination benefit
<b>P.J. Maguire</b> <i>Managing Director</i>	On-going Performance Rights and/or Options over ordinary shares in the Company may be subscribed for on the terms and conditions set out in the contract and subject to shareholder approval.	\$590,000	Contract may be terminated on 12 months' notice by the Company and on 6 months' notice by the executive.
<b>S.K.S. Chan</b> <i>Managing Director, McPherson's Consumer Products (HK) Limited</i>	On-going	HKD 2,770,134 AUD 490,176	Contract may be terminated on 3 months' notice by either the Company or Executive.
<b>P. Witheridge</b> <i>Chief Financial Officer and Company Secretary</i>	On-going	\$355,000	Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive.
<b>S.R. Rorie</b> <i>Chief Executive Officer, Home Appliances Pty Ltd</i>	On-going	\$438,000	Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive.

\* Base salaries quoted are for the year ended 30 June 2016; they are reviewed annually by the Nomination and Remuneration Committee.

### Share-based compensation

#### Performance Rights

The terms and conditions of each grant of performance right affecting remuneration in the current or future reporting periods are set out in the table shown below.

Each performance right is entitled to acquire one share for no consideration subject to the satisfaction of the vesting conditions which are based on performance and time related conditions. The number of rights that will vest will be determined proportionately on a straight line basis based on the compound annual growth rate (CAGR) of the Group's earnings excluding significant items per share ("Underlying EPS") over a two or three year period (depending on the terms of the issue). The base year EPS to be used in determining whether the vesting conditions have been satisfied is the reported underlying EPS for the 30 June financial year immediately prior to when the rights were issued. The underlying EPS is subject to further adjustment at the discretion of the Nomination and Remuneration Committee when considered appropriate.

# Directors' Report (Continued)

## (K) REMUNERATION REPORT (CONTINUED)

### Share-based compensation (continued)

#### Performance Rights (continued)

The rights will vest proportionately from no rights vesting if the Group's EPS CAGR is 3.0% or less to 100% of rights vesting if the Group's EPS CAGR is 8.0% or higher. The performance rights carry no dividend or voting rights.

Name	Year of grant	Years in which rights may vest	Number of rights granted	Value of rights at grant date <sup>1</sup>	Number of rights vested during the year	Vested %	Number of rights forfeited during the year	Value at date of forfeiture	Forfeited %
P.J. Maguire	2014	2016	96,000	\$126,720	-	-	96,000	-	100
	2014	2017	96,000	\$115,776	-	-	-	n/a	-
	2015	2018	196,000	\$217,952	-	-	-	n/a	-
	2016	2019	475,000	\$237,423	-	-	-	n/a	-
S.K.S. Chan	2014	2016	25,500	\$33,660	-	-	25,500	-	100
	2014	2017	25,500	\$30,753	-	-	-	n/a	-
P. Witheridge	2014	2016	23,000	\$30,360	-	-	23,000	-	100
	2014	2017	23,000	\$27,738	-	-	-	n/a	-
	2015	2018	47,000	\$52,264	-	-	-	n/a	-
	2016	2019	114,000	\$56,981	-	-	-	n/a	-
S.R. Rorie	2016	2019	141,000	\$70,478	-	-	-	n/a	-

1 The value at grant date is calculated in accordance with AASB 2 *Share-based Payments*

The fair value at grant date was independently valued using the market price of the Company's shares on grant date and the Company's dividend yield (both historic and future yield estimates) as key inputs.

#### Restriction on removing the at risk aspect of any instruments granted as part of remuneration

The Company's Securities Trading Policy contains a restriction on removing the 'at risk' aspect of any instruments granted to executives as part of their remuneration package. Plan participants may not enter into any transaction designed to remove any 'at risk' aspect before the instruments vest.

#### Performance rights (units) held by key management personnel

Name	Balance at start of the year	Granted as compensation	Vested rights	Cancelled	Balance at the end of the year	Vested and exercisable	Unvested
P.J. Maguire Performance Rights	388,000	475,000	-	(96,000)	767,000	-	767,000
S.K.S. Chan Performance Rights	51,000	-	-	(25,500)	25,500	-	25,500
P. Witheridge Performance Rights	93,000	114,000	-	(23,000)	184,000	-	184,000
S.R. Rorie Performance Rights	-	141,000	-	-	141,000	-	141,000

## (K) REMUNERATION REPORT (CONTINUED)

### Share-based compensation (continued)

#### Shares held by key management personnel

Name	Balance at the start of the year	Other non-remuneration changes during the year	Balance at the end of the year
<b>Directors of McPherson's Limited</b>			
G.A. Cubbin	110,000	-	110,000
P.J. Maguire	1,433,143	1,000,000	2,433,143
P.M. Payn	-	-	-
A.M. Lacaze	18,642	-	18,642
J.M. McKellar	-	-	-
<b>Other key management personnel</b>			
S.K.S. Chan	-	-	-
P. Witheridge	78,000	7,274	85,274
S.R. Rorie	-	-	-

None of the shares above are held nominally by the Directors or any of the other key management personnel.

#### Employee share schemes

The Company does not currently operate an employee share scheme.

#### Additional information

##### Loans to Directors and Executives

There were no loans made to Directors of McPherson's Limited or to any key management personnel of the Group, including their personally-related entities during the year, nor were there any loans outstanding at the end of the current or prior financial year.

##### Other transactions with Directors and Executives

During the year the Group sold minor quantities of its products for domestic use to key management personnel on terms and conditions no more favourable than those adopted when dealing with other employees at arm's length in the same circumstances.

There were no transactions between the Group and the Directors of McPherson's Limited or with any other key management personnel of the Group, including their personally-related entities, during the current or previous financial year other than those disclosed above, and relating to remuneration and to transactions concerning options and shares.

## (I) SHARES UNDER OPTION

There are no unissued ordinary shares of McPherson's Limited under option at the date of this report.

#### Shares issued on the exercise of options

No ordinary shares of McPherson's Limited were issued during the year ended 30 June 2016 (2015: Nil), or since that date, under the McPherson's Limited Employee Share/Option Purchase Plan as no options were exercised. There are no options outstanding at the date of this report.

# Directors' Report (Continued)

## **(M) INDEMNIFICATION AND INSURANCE OF OFFICERS**

The Company has agreed to indemnify the current Directors and certain current executives of the Group against all liabilities to another person (other than the Group or a related body corporate) that may arise from their position as Directors or officers of the Group, to the extent permitted by law. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During the financial year, McPherson's Limited paid a premium to insure Directors and certain officers of the Company and controlled entities. The Directors and officers covered by the insurance policy include the current Directors and Secretaries of McPherson's Limited, Directors or Secretaries of controlled entities who are not or were not also Directors or Secretaries of McPherson's Limited, senior management of the Group and senior management of divisions and controlled entities of McPherson's Limited. As the insurance policy operates on a claims made basis, former Directors and officers of the Group are also covered.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or controlled entities. The insurance policy outlined above does not contain details of premiums paid in respect of individual Directors and officers of the Company. The insurance policy prohibits disclosure of the premium paid.

## **(N) ENVIRONMENTAL REGULATION**

The Group is not subject to significant environmental regulation in respect of its operations. The Group is committed to achieving a high standard of environmental performance and the Group monitors its compliance with environmental regulations. The Board is not aware of any significant breaches of environmental regulation during the period covered by this report.

## **(O) PROCEEDINGS ON BEHALF OF THE COMPANY**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## **(P) NON-AUDIT SERVICES**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Risk Management and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Risk Management and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

## (P) NON-AUDIT SERVICES (CONTINUED)

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	CONSOLIDATED	
	2016 \$	2015 \$
<b>Other assurance services</b>		
PricewaterhouseCoopers Australian firm:		
Earn-out statement audit	-	15,000
<b>Total remuneration for other assurance services</b>	-	15,000
<b>Other services</b>		
PricewaterhouseCoopers Australian firm:		
Tax advice relating to employee performance rights plan	2,000	1,500
Consulting services associated with due diligence review	103,049	67,032
Dispute support services	28,013	205,000
<b>Total remuneration for other services</b>	<b>133,062</b>	273,532
<b>Total remuneration for non-audit services</b>	<b>133,062</b>	288,532

## (Q) ROUNDING

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report and Directors' Report. Amounts in the Directors' Report and financial report have been rounded off in accordance with that Legislative Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## (R) AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE

As at the date of this report, McPherson's Limited has an Audit Risk Management and Compliance Committee consisting of the following independent non-executive Directors:

- P.M. Payn (Chairman) appointed 18 November 2015
- G.A. Cubbin (Chairman until 18 November 2015)
- A.M. Lacaze

## (S) AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence as required under section 307C of the *Corporations Act 2001* is set out on page 36.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 22nd day of August 2016.



**G.A. Cubbin**  
Director



**P.J. Maguire**  
Director

# Auditor's Independence Declaration



## Auditor's Independence Declaration

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of McPherson's Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'P.J. Carney'.

Paddy Carney  
Partner  
PricewaterhouseCoopers

Sydney  
22 August 2016

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

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# Directors' Declaration

We, Graham A. Cubbin and Paul J. Maguire, being two of the Directors of McPherson's Limited, declare that in the Directors' opinion:

- (a) the financial statements and notes as set out on pages 40 to 94 and the remuneration report on pages 24 to 33 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 34 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 34.

Note 1(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

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

Dated at Sydney this 22nd day of August 2016.



**G. A. Cubbin**  
Director



**P.J. Maguire**  
Director

# Independent Auditor's Report

TO THE MEMBERS OF McPHERSON'S LIMITED



## Independent auditor's report to the members of McPherson's Limited

### *Report on the financial report*

We have audited the accompanying financial report of McPherson's Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for McPherson's Limited and Controlled Entities (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

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

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

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

### *Independence*

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

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#### *Auditor's opinion*

In our opinion:

- (a) the financial report of McPherson's Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1a).

#### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 24 to 33 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

#### *Auditor's opinion*

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'P. J. Carney'.

Paddy Carney  
Partner

Sydney  
22 August 2016

# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>Revenue</b>			
Sales revenue		312,586	349,069
Interest		217	214
<b>Total revenue</b>		<b>312,803</b>	<b>349,283</b>
Commissions		66	205
Contingent consideration adjustment		-	2,036
Gain on sale of joint venture	14(a)	1,961	-
Other income		364	326
<b>Total revenue and other income</b>		<b>315,194</b>	<b>351,850</b>
<b>Expenses</b>			
Materials and consumables used		(179,513)	(208,485)
Employee costs		(45,767)	(49,253)
Advertising and promotional		(21,869)	(20,560)
Cartage and freight		(13,235)	(17,571)
Third party warehousing		(5,884)	(6,904)
Rental expenses relating to operating leases		(5,518)	(6,583)
Depreciation	15(a)	(2,204)	(2,256)
Amortisation of other intangibles	16	(599)	(403)
Restructure costs		(5,766)	(4,123)
Other expenses		(14,737)	(16,564)
Borrowing costs		(7,320)	(8,347)
Impairment of intangible assets		-	(637)
Share of net profit of associates accounted for using the equity method		1,825	1,060
<b>Profit before income tax</b>		<b>14,607</b>	11,224
Income tax expense	8(b)	(3,606)	(2,384)
<b>Profit for the year</b>		<b>11,001</b>	8,840
<b>Profit for the year</b>			
	Note	2016 \$'000	2015 \$'000
<b>Profit for the year</b>		<b>11,001</b>	8,840
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges	25	(4,802)	6,125
Exchange differences on translation of foreign operations	25	1,117	1,249
Reclassification of reserves to profit and loss on disposal of joint venture	25	(87)	-
Income tax benefit/(expense) relating to these items	8(d)	1,435	(1,820)
<b>Other comprehensive (loss)/income for the year</b>		<b>(2,337)</b>	5,554
<b>Total comprehensive income for the year</b>		<b>8,664</b>	14,394
<b>Basic earnings per share</b>			
	Note	Cents	Cents
Basic earnings per share	30	11.1	9.2
Diluted earnings per share	30	11.1	9.2

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

AS AT 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents	10	16,490	11,283
Trade and other receivables	11	44,842	55,009
Inventories	12	59,787	57,785
Derivative financial instruments	13	-	1,951
Current tax assets		731	1,118
Assets classified as held for sale	14(e)	-	43,905
<b>Total current assets</b>		<b>121,850</b>	171,051
<b>Non-current assets</b>			
Other receivables	2(e)	-	2,587
Investments accounted for using the equity method	14(d)	-	8,829
Property, plant and equipment	15	5,843	5,501
Intangible assets	16	115,139	89,418
Deferred tax assets	17	6,594	5,555
<b>Total non-current assets</b>		<b>127,576</b>	111,890
<b>Total assets</b>		<b>249,426</b>	282,941
<b>Current liabilities</b>			
Trade and other payables	18	48,810	60,427
Borrowings	19	17,503	406
Derivative financial instruments	13	3,207	1,211
Provisions	20	9,274	16,564
Current tax liabilities		463	-
Liabilities directly associated with assets classified as held for sale	14(e)	-	6,447
<b>Total current liabilities</b>		<b>79,257</b>	85,055
<b>Non-current liabilities</b>			
Borrowings	21	48,886	88,069
Derivative financial instruments	13	1,905	1,601
Provisions	22	1,000	1,115
Deferred tax liabilities	23	13,893	8,363
<b>Total non-current liabilities</b>		<b>65,684</b>	99,148
<b>Total liabilities</b>		<b>144,941</b>	184,203
<b>Net assets</b>		<b>104,485</b>	98,738
<b>Equity</b>			
Contributed equity	24	154,042	149,191
Reserves	25(a)	635	2,933
Accumulated losses	25(b)	(50,192)	(53,386)
<b>Total equity</b>		<b>104,485</b>	98,738

The above balance sheet should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 1 July 2014<sup>1</sup></b>		147,003	(2,585)	(51,653)	92,765
Profit for the year		-	-	8,840	8,840
Other comprehensive income		-	5,554	-	5,554
<b>Total comprehensive income</b>		-	5,554	8,840	14,394
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	24	2,188	-	-	2,188
Dividends provided for or paid	6	-	-	(10,573)	(10,573)
Share-based payment transactions with employees	25(a)	-	(36)	-	(36)
<b>Total transactions with shareholders</b>		2,188	(36)	(10,573)	(8,421)
<b>Balance at 30 June 2015</b>		149,191	2,933	(53,386)	98,738

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 1 July 2015</b>		149,191	2,933	(53,386)	98,738
Profit for the year		-	-	11,001	11,001
Other comprehensive income		-	(2,337)	-	(2,337)
<b>Total comprehensive income</b>		-	(2,337)	11,001	8,664
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	24	4,851	-	-	4,851
Dividends provided for or paid	6	-	-	(7,807)	(7,807)
Share-based payment transactions with employees	25(a)	-	39	-	39
<b>Total transactions with shareholders</b>		4,851	39	(7,807)	(2,917)
<b>Balance at 30 June 2016</b>		154,042	635	(50,192)	104,485

1 As noted in the 30 June 2015 Annual Report, 30 June 2014 numbers were restated as a result of an error. Refer to Note 1(a) of the 30 June 2015 Annual Report for further details. Also, refer to Note 1(a) for details about restatement of prior period comparatives.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		354,735	382,762
Payments to suppliers and employees (inclusive of GST)		(320,473)	(363,309)
Interest received		217	214
Interest and borrowing costs paid		(6,533)	(8,710)
Income taxes paid		(3,020)	(4,007)
<b>Net cash inflows from operating activities</b>	35	<b>24,926</b>	6,950
<b>Cash flows from investing activities</b>			
Payments for acquisition of business assets	31	(8,522)	(8,061)
Payments for purchase of property, plant and equipment		(2,953)	(1,969)
Payments for purchase of other intangible assets		(989)	(1,468)
Proceeds from sale of business assets	14(a)	18,310	6,571
Proceeds received in advance relating to pending disposal of New Zealand Housewares business	14(b)	-	1,914
Proceeds from sale of property, plant and equipment		78	39
<b>Net cash inflows/(outflows) from investing activities</b>		<b>5,924</b>	(2,974)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	24	4,050	-
Share issue transaction costs	24	(62)	-
Proceeds from borrowings		42,783	228,842
Repayment of borrowings		(55,709)	(217,013)
Bonds buyback		(9,977)	-
Dividends paid		(6,944)	(8,379)
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(25,859)</b>	3,450
<b>Net increase in cash held</b>			
Cash at beginning of financial year		11,283	3,722
Effects of exchange rate changes on cash		216	135
<b>Cash held at end of financial year</b>	10	<b>16,490</b>	11,283

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

YEAR ENDED 30 JUNE 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of McPherson's Limited and its subsidiaries.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. McPherson's Limited is a for profit entity for the purpose of preparing the financial statements.

### Compliance with IFRS

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Historical cost convention

These financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities (including derivative instruments) which are carried at fair value.

### New and amended standards

None of the new standards and amendments to standards that were mandatory for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period. New standards that have been issued but are not yet effective for the financial year beginning 1 July 2015 and have not been early adopted have been considered in Note 1(aa).

### (b) Principles of consolidation

#### Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those return through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in controlled entities are accounted for at cost in the individual financial statements of the parent entity.

#### Changes in ownership interests

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### Joint arrangements

Under AASB 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Group's 49% investment in McPherson's Housewares was deemed a joint venture due to the contractual rights of the arrangement. This investment was accounted for using the equity method below after initially being recognised at fair value in the consolidated balance sheet.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(b) Principles of consolidation (continued)**

#### **Equity method**

Under the equity method of accounting, the investment are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from the joint venture are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and the joint venture are eliminated to the extent of the Group's interest in these entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **(c) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director of McPherson's Limited.

### **(d) Foreign currency translation**

#### **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is McPherson's Limited's functional and presentation currency.

#### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

#### **Group companies**

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (e) Revenue recognition

#### Sales revenue

Sales revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and rebates. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and the goods are dispatched, or when title passes to the customer. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### Other income

Other income is recognised when the income is received or becomes receivable.

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to any unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### Investment Allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances) or qualifying expenditure (research and development tax incentive regime). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

#### Tax consolidation legislation

McPherson's Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity. McPherson's Limited, as the head entity in the tax consolidated group, recognises current tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting Tax Funding Agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the Tax Funding Agreement are presented as income tax expense (credit).

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(g) Leases**

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor substantially retains all such risks and benefits. Where a non-current asset is acquired by means of a finance lease, the lower of the fair value of leased property and the present value of the minimum lease payments is established as a non-current asset at the beginning of the lease term and amortised on a straight-line basis over its expected economic life. A corresponding liability is also established and each lease payment is allocated between the principal component and interest expense.

Operating lease payments (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### **(h) Business combinations**

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition comprises the fair value of the assets transferred, shares issued and liabilities incurred or assumed at the date of exchange. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(r)). If the consideration transferred is less than the fair value of the net assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase, but only after a reassessment of the identification and measurement of the net assets acquired. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

### **(i) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### **(j) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### **(k) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement no more than 60 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Inventories

Inventories (including work in progress) are valued at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on a weighted average basis. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of inventory. Cost of work in progress and finished manufactured products includes materials, labour and an appropriate proportion of factory overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts. Unrealised profits on inter-company inventory transfers are eliminated on consolidation. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### (m) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate cash-generating unit or a group of cash-generating units and is a separate major line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the statement of comprehensive income.

### (n) Investments and other financial assets

The Group classifies its financial assets in the following categories, financial assets at fair value through profit or loss; and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. At initial recognition, the Group measures these financial assets at fair value.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short-term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges which qualify for hedge accounting.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

#### Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(o) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### **Cash flow hedges that qualify for hedge accounting**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

When foreign currency options are used to hedge forecast future inventory purchases, the Group only designates the intrinsic value of the option as the hedging instrument. The intrinsic value of the option is accounted for in accordance with the previous paragraph. The time value of the option is recognised within other comprehensive income and in the hedging reserve within equity. The time value of the option is subsequently included within the initial cost of the related inventory. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold.

#### **Derivatives that do not qualify for hedge accounting**

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income, other expenses or finance costs.

### **(p) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of interest rate hedge contracts is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts and other foreign currency contracts are determined using forward exchange market rates and volatilities at the balance sheet date.

The net nominal value of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their net cost, over their estimated useful lives, which is usually between 3 to 10 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss.

### (r) Intangible assets

#### (i) Goodwill

Goodwill is measured as described in Note 1(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

#### (ii) Brandnames

The Group recognises brandnames that are acquired as part of a business combination or that are specifically acquired from a vendor. The Group does not recognise internally generated brandnames. Brandnames are initially recognised at fair value, if acquired as part of a business combination, or at cost, if specifically acquired from a vendor. For brandnames specifically acquired from a vendor and held at cost, any subsequent adjustments arising from a contingent consideration arrangement associated with the brand acquisition are reflected in the carrying value of the relevant brandname. Subsequent to initial recognition, brandnames are recognised at cost less accumulated impairment losses.

The major brandnames of the Group, have been, in some cases, in existence for more than 50 years and continue to be in active use. The brandnames are utilised predominately on consumer products which do not suffer from technical obsolescence.

The carrying amount of brandnames are not amortised as the Directors are of the view that the brandnames held have an indefinite useful life.

Brandnames are tested individually for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. The recoverable amount of a brandname is determined based on the higher of value-in-use or fair value less costs to sell.

#### (iii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis generally over three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised where the Group has an intention and ability to use the asset.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(r) Intangible assets (continued)**

#### **(iv) Research and development**

Research expenditure and development expenditure that do not meet the criteria in (iii) 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.

#### **(s) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which remain unpaid. These amounts are unsecured and are normally settled within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

#### **(t) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Cost of products and services provided under warranty is expensed as incurred. The company provides for warranties based on history of claims and management's best estimate of expected claims.

#### **(u) Employee benefits**

##### **(i) Short-term obligations**

Liabilities for wages and salaries, including annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

##### **(ii) Other long-term employee benefit obligations**

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

##### **(iii) Bonus plans**

A liability for employee benefits in the form of bonuses is recognised in provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; and
- past practice gives clear evidence of the amount of the obligation.

##### **(iv) Superannuation**

Contributions to employee superannuation funds are made by McPherson's Limited and controlled entities. Contributions are recognised as an expense as they become payable.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Employee benefits (continued)

#### (v) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. The liabilities for termination benefits are recognised in other creditors unless timing of the payment is uncertain, in which case they are recognised as provisions.

#### (vi) Employee benefit on-costs

Employee benefit on-costs are recognised and included in employee benefit liabilities when the employee benefits to which they relate are recognised as liabilities.

#### (vii) Share-based payments

Share-based compensation benefits are provided to employees via the McPherson's Limited Employee Share/Option Purchase Plan or the McPherson's Limited Performance Rights Plan.

The fair value of options or rights granted to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is independently determined at grant date and recognised over the period during which the employees become unconditionally entitled to the options or rights.

Non-market vesting conditions are included in assumptions about the number of options or rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options or rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Upon the exercise of options or rights, the balance of the share-based payments reserve relating to those options or rights is transferred to share capital.

### (v) Contributed equity and dividends

#### (i) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (ii) Dividends

Provision is made for any dividend declared by the Directors, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

### (w) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of McPherson's Limited by the weighted average number of ordinary shares outstanding during the financial year (refer to Note 30).

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account all dilutive potential ordinary shares arising from the exercise of options outstanding (refer to Note 30).

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **(x) Borrowings and borrowing costs**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or financial costs.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan and are amortised over the period of the facility to which it relates, unless a shorter period is considered more appropriate.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Borrowing costs are expensed as incurred.

### **(y) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### **(z) Rounding of amounts**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Legislative Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### **(aa) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The following new standards have been issued but are not yet effective for the financial year beginning 1 July 2015 and have not been early adopted:

#### **AASB15 'Revenue from contracts with customers' (effective from 1 January 2018)**

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The Group is evaluating the impact of this standard.

#### **AASB16 'Leases' (effective from 1 January 2019)**

The new standard now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard has an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard also provides guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts). The Group is evaluating the impact of this standard.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ab) Parent entity financial information

The financial information for the parent entity, McPherson's Limited, disclosed in Note 37 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of McPherson's Limited. Dividends received from subsidiaries are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

### (ac) Critical accounting estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are discussed below.

#### Estimated recoverable amount of goodwill and indefinite lived brandnames

The Group tests goodwill and indefinite lived brandnames annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. In calculating the recoverable amount of these assets the use of assumptions is required. Refer to Note 16 for details of these assumptions.

#### Estimated carrying value of provision for contingent consideration

A number of the Group's recent business and asset acquisitions have included a contingent consideration arrangement whereby the Group may be required to pay the vendors a variable amount of money depending on the performance of the acquired business or brand over a set period post acquisition. In accordance with Australian Accounting Standards, management is required to estimate how much of the contingent consideration it is expecting to pay in the future. Refer to Note 31 for further details.

#### Estimated carrying value of put/call option associated with the Housewares disposal

In accordance with Australian Accounting Standards, the final amount received by the Group upon sale of its remaining shares of the Housewares Group in the form of the put/call option was estimated in the prior year. The actual amounts received by the Group differed to what has been estimated. Refer to Note 14(a) for further details.

#### Provision for stock obsolescence

Inventories are valued at the lower of cost and net realisable value. Estimates are required to be made in relation to the recoverable amount of inventory. These estimates are based on projected sales volumes and sell prices determined using current information and past experience, estimates of net realisable values for the excess volumes are made and provisions recognised where necessary.

## 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to financial risks such as currency risk, interest rate risk, credit risk and liquidity risk. In order to minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange and interest rate hedge contracts are used to hedge certain risk exposures. Derivatives are used exclusively for hedging purposes and not as trading or other speculative instruments.

Risk management is predominantly controlled by a central treasury department under policies approved by the Board of Directors. The central treasury department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

Whilst the Group's hedging policy only allows for highly effective hedge relationships to be established, at times some hedge ineffectiveness can arise. The key sources of hedge ineffectiveness for the hedged risks are:

### Foreign exchange risk

If the timing of the hedged highly probable forecast transaction changes from what was originally estimated; if the amount of the hedged highly probable forecast transaction decreases to an amount below the associated hedging instrument amount; or if differences arise between the credit risk inherent within the hedged item and the hedging instrument.

### Interest rate risk

If the underlying interest rate inherent within the Group's borrowing arrangements differs from the underlying interest rate included within the hedging instrument; if the Group's outstanding borrowings reduce to an amount below that included within the hedging instrument; if the time period of the hedging instrument goes beyond the maturity date of the related borrowings and it is unlikely that the Group would refinance its borrowings for a further period; or if differences arise between the credit risk inherent within the hedged item and the hedging instrument.

The Group holds the following financial instruments:

	2016 \$'000	2015 \$'000
<b>Financial assets</b>		
Cash and cash equivalents (Note 10)	16,490	11,283
Trade and other receivables (Note 11)	44,842	55,009
Derivative financial instruments (Note 13)	-	1,951
Put option (Note 2(e))	-	2,587
	<b>61,332</b>	70,830
<b>Financial liabilities</b>		
Trade and other payables (Note 18)	48,810	60,427
Borrowings (Notes 19 and 21)	66,389	88,475
Derivative financial instruments (Note 13)	5,112	2,812
Contingent consideration (Note 20)	-	6,637
	<b>120,311</b>	158,351

The fair value measurements of the derivative financial instruments, put option and contingent consideration settled during the current financial year from the above table are shown in Note 2(e).

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar given the majority of the Group's foreign currency purchases are in USD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investment in foreign operations.

The Board's risk management policy is to hedge 100% of anticipated cash flows (mainly inventory purchases) in United States dollars for periods of eight to twelve months subsequent, subject to a review of the cost of implementing each hedge. At balance date 100% (2015: 100%) of projected USD purchases qualified as "highly probable" forecast transactions for hedge accounting purposes. The Group also hedges material exposures arising in foreign currencies other than USD. The Group uses a mixture of foreign currency options and forward exchange contracts to hedge its exposures to foreign currency. The weighted average hedged rate for the AUD/USD hedges the Group had in place at 30 June 2016 was 0.7069 (2015: 0.7688).

The Group's exposure to foreign currency risk (being unhedged payable and receivable amounts, and outstanding hedges associated with forecast future transactions) at the reporting date was as follows:

	\$'000							
	USD	NZD	EURO	GBP	RMB	HKD	AUD	SNG
<b>30 June 2016 - Group</b>								
Trade receivables	203	-	-	22	157	-	1,793	-
Trade payables	3,121	26	210	492	20	19	725	-
Forward foreign exchange contracts - buy foreign currency	56,014	-	8,368	-	-	-	634	685
Foreign currency options - buy foreign currency	45,275	-	-	-	-	-	-	-
<b>30 June 2015 - Group</b>								
Trade receivables	310	-	-	47	276	-	1,366	-
Trade payables	1,237	49	357	552	116	866	1,439	-
Forward foreign exchange contracts - buy foreign currency	64,692	-	847	-	-	-	-	951
Foreign currency options - buy foreign currency	56,745	-	-	-	-	-	-	-

### Group Sensitivity

Based on the financial instruments held at 30 June 2016, had the Australian dollar weakened/strengthened by 5% against other foreign currencies at that date, with all other variables held constant, it is estimated that equity would have been \$2,373,985 higher/\$2,186,560 lower (2015: \$3,027,580 higher/\$2,964,486 lower), arising from forward foreign exchange contracts and foreign currency options designated as cash flow hedges. The Group's exposure to unhedged amounts is not material.

### (b) Interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable interest rates, which expose the Group to cash flow interest rate risk. The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Under these swaps the Group agrees with relevant counterparties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

## 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Interest rate risk (continued)

At 30 June 2016, \$55,503,000 of the Group's debt is at fixed rates. This is comprised of \$25,000,000 of fixed rate bonds, \$30,000,000 of floating-to-fixed interest rate swaps and \$503,000 of other fixed rate borrowings. The remainder of the Group's debt is at variable rates.

At 30 June 2016, the Group holds two separate \$15,000,000 floating-to-fixed interest rate swaps for a combined value of \$30,000,000. The swaps mature in May 2020. The contracts restrict the Group's interest rate exposure to 4.1% (excluding the Group's credit margin) for \$30,000,000 of the Group's variable rate debt over this period. Both contracts are settled on a quarterly basis and compare with the 90 day Bank Bill Swap Reference Rate (BBSW).

	Weighted average interest rate <sup>1</sup>	Balance \$'000	% of total loans
<b>2016</b>			
Bank loans – variable rate	1.9%	17,000	25
Bonds – variable rate	2.0%	25,000	37
Interest rate swaps (notional principal amount)	4.1%	(30,000)	
<b>Net exposure to cash flow interest rate risk</b>		<b>12,000</b>	<b>18</b>
<b>2015</b>			
Bank loans – variable rate	2.2%	30,000	33
Bonds – variable rate	2.2%	30,000	33
Interest rate swaps (notional principal amount)	4.1%	(30,000)	
<b>Net exposure to cash flow interest rate risk</b>		<b>30,000</b>	<b>33</b>

1 Weighted average interest rates exclude the Group's credit margin

### Group Sensitivity

At 30 June 2016, if interest rates had changed by +/- 50 basis points from the year end rates with all other variables held constant, equity is estimated to have been \$202,000 higher/\$312,000 lower (2015: \$254,000 higher/\$475,000 lower) as a result of an increase/decrease in the fair value of the interest rate cash flow hedges.

The Group's profit is estimated to have been \$23,000 lower/\$23,000 higher (2015: \$101,000 lower/\$101,000 higher) as a result of a change in interest rates of +/- 50 basis points applied to the average unhedged portion of debt throughout the year.

### (c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, derivative financial instruments and receivables due from customers.

The maximum exposure to credit risk at balance date is the carrying amount of the financial assets as summarised in Note 2. For derivative instruments, counterparties are limited to approved institutions with secure long-term credit ratings.

Credit limits are set and monitored by management with respect to individual customers and in some instances debtor insurance is taken out against specific customers in order to minimise the credit risk. Credit limits are based on the customers' financial position and prior payment history.

For derivative financial instruments, the Board determines the coverage required by the Group and this is reviewed on a regular basis. The Group uses the major Australian banks as counterparties for most of the Group's derivative instruments. Derivatives entered into by foreign subsidiaries also use the major banks from within that country. Refer to Notes 11 and 13 for additional information regarding receivables and credit risk exposure.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

	2016 \$'000	2015 \$'000
<b>Financing Arrangements</b>		
The Group has access to the following undrawn borrowing facilities at the end of the reporting period:		
<b>Unused at balance date – floating rate</b>		
Expiry within one year (bank overdraft and loans)	31,250	-
Expiring beyond one year (bank loans)	-	33,000
	<b>31,250</b>	<b>33,000</b>

Refer to Note 19 and 21 for further information regarding the financing facilities available to the Group.

### Maturity profile of the Group's borrowings

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 1 Year \$'000	Between 1 & 2 Years \$'000	Between 2 & 3 years \$'000	Between 4 & 6 years \$'000	Total Contractual Cash Flows \$'000	Carrying Amount \$'000
<b>30 June 2016</b>						
<b>Non-derivatives</b>						
Payables	48,810	-	-	-	48,810	48,810
Borrowings	21,096	3,340	31,289	28,106	83,831	66,389
<b>Total non-derivative financial liabilities</b>	<b>69,906</b>	<b>3,340</b>	<b>31,289</b>	<b>28,106</b>	<b>132,641</b>	<b>115,199</b>
<b>Derivatives</b>						
Forward foreign exchange contracts – inflow	(65,701)	-	-	-	(65,701)	-
Forward foreign exchange contracts – outflow	67,298	-	-	-	67,298	1,597
	1,597	-	-	-	1,597	1,597
Interest rate contracts	654	654	654	597	2,559	2,559
Foreign currency options	956	-	-	-	956	956
<b>Total derivative financial instrument liabilities</b>	<b>3,207</b>	<b>654</b>	<b>654</b>	<b>597</b>	<b>5,112</b>	<b>5,112</b>

	Less than 1 Year \$'000	Between 1 & 2 Years \$'000	Between 2 & 3 years \$'000	Between 4 & 6 years \$'000	Total Contractual Cash Flows \$'000	Carrying Amount \$'000
<b>30 June 2015</b>						
<b>Non-derivatives</b>						
Payables	60,427	-	-	-	60,427	60,427
Contingent consideration <sup>1</sup>	6,637	-	-	-	6,637	6,637
Borrowings	5,527	34,850	37,646	33,728	111,751	88,475
<b>Total non-derivative financial liabilities</b>	<b>72,591</b>	<b>34,850</b>	<b>37,646</b>	<b>33,728</b>	<b>178,815</b>	<b>155,539</b>
<b>Derivatives</b>						
Interest rate contracts	409	410	410	781	2,010	2,010
Foreign currency options	802	-	-	-	802	802
<b>Total derivative financial instrument liabilities</b>	<b>1,211</b>	<b>410</b>	<b>410</b>	<b>781</b>	<b>2,812</b>	<b>2,812</b>

1 The amounts disclosed above in relation to contingent consideration are based on management's best estimates of the likely future payments based on the facts and circumstances in existence at 30 June 2015. Refer to Note 31 for further information.

## 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (e) Fair value measurement of financial instruments

The following financial instruments held by the Group were measured and recognised at fair value at 30 June 2016 and 30 June 2015 on a recurring basis:

Recurring fair value measurements	30 JUNE 2016				30 JUNE 2015			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value</b>								
Derivative financial instruments	-	-	-	-	-	1,951	-	1,951
Put Option	-	-	-	-	-	-	2,587	2,587
<b>Total financial assets at fair value</b>	-	-	-	-	-	1,951	2,587	4,538
<b>Financial liabilities at fair value</b>								
Derivative financial instruments	-	5,112	-	5,112	-	2,812	-	2,812
Contingent consideration	-	-	-	-	-	-	6,637	6,637
<b>Total financial liabilities at fair value</b>	-	5,112	-	5,112	-	2,812	6,637	9,449

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

**Level 1:** The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.

**Level 2:** The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The fair value of the derivative financial instruments is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. The fair value of interest rate swaps is calculated as the present value of the estimated cash flows and the fair value of forward exchange and option contracts is determined using forward exchange market rates and volatilities at the end of the reporting period.

The following table presents the changes in level 3 instruments for the years ended 30 June 2016 and 30 June 2015:

	FINANCIAL ASSET	FINANCIAL LIABILITY
	Put option receivable \$'000	Contingent consideration payable \$'000
<b>Opening balance at 1 July 2014</b>	-	12,885
Option value recognised on disposal of business (refer Note 14)	1,347	-
Adjustments arising from reassessment of the option/provision (refer Note 14 and Note 31 respectively)	1,240	(6,248)
<b>Closing balance at 30 June 2015</b>	2,587	6,637
Part acquisition of a business (refer to Note 31)	-	(6,637)
Option value recognised on disposal of business (refer to Note 14(b))	541	-
Adjustments arising from reassessment of the option/provision (refer Note 14(a))	1,558	-
Exercise of put/call option on disposal of joint venture (refer to Note 14(a))	(4,686)	-
<b>Closing balance at 30 June 2016</b>	-	-

The fair values of the Group's put option receivable and provision for contingent consideration payable was determined using internal calculations which use relevant current and projected performance, the shareholder agreements, and contingent consideration agreements as inputs. Refer Notes 14 and 31 for further information.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 3. REVENUE

	2016 \$'000	2015 \$'000
<b>Revenue from operating activities:</b>		
Sales revenue	312,586	349,069
<b>Other revenue:</b>		
Interest	217	214
<b>Total revenue</b>	<b>312,803</b>	<b>349,283</b>

## 4. OTHER INCOME

	2016 \$'000	2015 \$'000
Commissions	66	205
Contingent consideration adjustment	-	2,036
Gain on disposal of joint venture	1,961	-
Other income	364	326
<b>Total other income</b>	<b>2,391</b>	<b>2,567</b>

## 5. OPERATING PROFIT

(a) Profit before income tax expense includes the following net expenses and gains:

	2016 \$'000	2015 \$'000
<b>Expenses:</b>		
Total rental expenses relating to operating leases	5,518	6,583
Bad and doubtful debts – trade debtors	(112)	412
Provision for stock obsolescence	7,600	1,797
<b>Other provisions:</b>		
Employee entitlements	2,425	3,570
Employee incentives	1,333	958
Claims, returns and warranty	3,331	2,662
Restructure	333	1,409
Contingent consideration	-	(2,036)
Other	160	413
<b>Total other provisions</b>	<b>7,582</b>	<b>6,976</b>
<b>Other expenses:</b>		
Cost of goods sold	179,513	208,485
(Gain)/loss on disposal of plant and equipment	(20)	100
Net foreign exchange (gains)	(5,696)	(3,490)
<b>Finance costs:</b>		
Amortisation of refinancing costs	720	-
Borrowing costs	6,343	6,378
Termination of interest rate swap associated with refinancing	-	1,969
Cost associated with bonds buy back	257	-
	<b>7,320</b>	<b>8,347</b>

## 5. OPERATING PROFIT (CONTINUED)

### (b) Significant items

The Group's profit after income tax includes the following items that are significant because of their nature or size:

	2016 \$'000	2015 \$'000
(i) Restructure costs	(5,766)	(4,123)
Less: Applicable income tax benefit	1,695	1,212
	<b>(4,071)</b>	(2,911)
(ii) Gain on sale of joint venture (Note 14(a))	1,961	-
Less: Applicable income tax expense	-	-
	<b>1,961</b>	-
(iii) Gain on revaluation of put option associated with joint venture (Note 14(c))	-	1,240
Net loss on reclassifying New Zealand business to held for sale (Note 14(e))	-	(1,240)
Less: Applicable income tax expense	-	-
	-	-
(iv) Cost associated with bonds buy back	(257)	-
Less: Applicable income tax benefit	77	-
	<b>(180)</b>	-
(v) Acquisition and one off legal costs	(211)	(445)
Less: Applicable income tax benefit	64	133
	<b>(147)</b>	(312)
(vi) Impairment of goodwill and brandnames within the Australian business segment (Note 16)	-	(637)
Less: Applicable income tax benefit	-	80
	-	(557)
(vii) Business combination contingent consideration adjustment (Note 31)	-	2,036
Less: Applicable income tax benefit	-	-
	-	2,036
(viii) Termination of interest rate swap associated with refinancing	-	(1,969)
Less: Applicable income tax expense	-	591
	-	(1,378)
<b>Total significant items</b>	<b>(4,273)</b>	(5,138)
<b>Less: Applicable income tax benefits</b>	<b>1,836</b>	2,016
	<b>(2,437)</b>	(3,122)

The significant items set out in the table above are detailed on the following page.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 5. OPERATING PROFIT (CONTINUED)

### (b) Significant items (continued)

#### (i) Restructure costs

The restructure costs recognised in the current and prior periods primarily relate to redundancy, inventory clearance and other restructuring activities undertaken by the Group.

#### (ii) & (iii) Disposal of Housewares business

During the current year, the Group recognised a gain on sale of the Housewares joint venture of \$1,961,000. This includes the recognition of \$1,558,000 reassessment of fair value of the put/call option during the current year and the gain on exercising the put/call option of \$403,000. Refer to Note 14(a) for further details.

In the prior year, the Group recognised a gain of \$1,240,000 on remeasurement of its put option associated with its remaining 49% investment in the Australian, Singapore and Hong Kong Housewares business. This revaluation is based on the expected performance of the joint venture. The Group also recognised a loss of \$1,240,000 on reclassifying the New Zealand Housewares business to assets classified as held for sale.

#### (iv) Cost associated with bonds buy back

In April 2016, the Group completed a bonds buy back of \$5,000,000 of unsecured variable rates corporate bonds and \$5,000,000 of unsecured fixed rate corporate bonds. The associated transaction cost of the bond buy back and the pro-rated transaction costs capitalised at inception amounted to \$257,000 was recognised in the profit and loss during the current year.

#### (v) Acquisition and one off legal costs

Acquisition and transition related costs relate to the transaction and other one-off transition related costs incurred primarily associated with the Group's acquisition of the A'kin and Al'chemy brands in the prior year. During the year the Group has incurred one off legal expenses totalling \$153,000.

Refer to Note 31 for further information.

#### (vi) Impairment of goodwill and brandnames

The prior year impairment writedowns related to goodwill and brandnames associated with the Group's decision to divest a minor single branded part of the New Zealand business and to discontinue one other minor brand within the Australian Business. The \$372,000 goodwill impairment was associated with the Group's New Zealand cash generating unit, while the \$265,000 brandname impairment was associated with the Group's Australian Cash generating unit (excluding Home Appliances).

Refer to Note 16 for further information.

#### (vii) Business contingent consideration adjustment

In the prior year, the Group recognised a \$2,036,000 gain associated with the reassessment of the provision for contingent consideration relating to the Home Appliances acquisition. Refer to Note 31 for further information.

#### (viii) Termination of interest rate swap associated with refinancing

In the prior year, the Group completed its refinancing. This resulted in the Group significantly changing its financing arrangements and the counterparties involved. As a result of this change the Group's existing interest rate swap was terminated as it no longer aligned with the Group's new financing structure. Two new interest rate swaps were then subsequently entered into. In accordance with accounting standards the expense associated with terminating the original interest rate swap was recognised in full in the prior year.

## 6. DIVIDENDS

Details of dividends declared during the year ended 30 June 2016 are as follows:

	2016 \$'000	2015 \$'000
Final 30 June 2015 dividend of 2.0 cents per fully paid share (2014: 5.0 cents per fully paid share) fully franked @ 30%	1,947	4,772
Interim 2016 dividend of 6.0 cents per fully paid share (2015: 6.0 cents per fully paid share) fully franked @ 30%	5,860	5,801
<b>Total dividends</b>	<b>7,807</b>	10,573
<b>Dividends not recognised at year end</b>		
In addition to the above dividends, since the year end the Directors have declared a fully franked final dividend of 2.0 cents per fully paid share (2015: 2.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 8 November 2016 but not recognised as a liability at year end is:	2,066	1,947
<b>Franked Dividends</b>		
Franked dividends paid after 30 June 2016 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2017.		
Franking credits available for subsequent financial years based on a tax rate of 30%	17,932	17,948

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for receipt of the current tax assets.

### Dividend reinvestment plan

The Company's dividend reinvestment plan continues to operate without a discount and will apply to the upcoming final dividend. Shareholders on the register at the record date of 21 October 2016 will be eligible for the dividend. Shareholders wishing to participate in the dividend reinvestment plan need to have elected to do so by no later than the trading day immediately following the record date, or by 24 October 2016. Shareholders that have previously elected to participate in the dividend reinvestment plan will continue to do so on the same basis unless a formal election to vary or cease participation is provided by 24 October 2016.

The shares issued under the dividend reinvestment plan are fully paid ordinary shares and rank equally with other fully paid ordinary shares. The issue price under the dividend reinvestment plan is calculated as the volume weighted average price of all shares sold through normal trade on the ASX during the five trading days commencing on the third trading day after the record date.

## 7. SEGMENT INFORMATION

Operating segments are reported in a manner which is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director of McPherson's Limited.

The internal reports reviewed by the Managing Director, which are used to make strategic decisions, are separated into geographic segments and are considered on the basis of Australia, New Zealand and the rest of the world.

### Segment revenues

Segment revenues are allocated based on the location in which the revenue originated. Sales between segments are eliminated on consolidation.

Revenues of approximately \$40,568,000 (2015: \$69,029,000) and \$49,757,000 (2015: \$53,880,000) were derived from two external customers. These revenues were attributable to the Australian segment.

### Segment assets

Segment assets are allocated based on where the asset is located. Assets arising from transactions between segments are eliminated on consolidation.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 7. SEGMENT INFORMATION (CONTINUED)

	Australia \$'000	New Zealand \$'000	Rest of the World \$'000	Inter- segment eliminations \$'000	Consolidated \$'000
<b>2016</b>					
Sales to external customers	287,957	14,074	10,555	-	312,586
Inter-segment sales	2,085	-	79,188	(81,273)	-
<b>Total sales revenue</b>	<b>290,042</b>	<b>14,074</b>	<b>89,743</b>	<b>(81,273)</b>	<b>312,586</b>
Other revenue/income (excluding interest)	103	2	325	-	430
<b>Total segment revenue and other income</b>	<b>290,145</b>	<b>14,076</b>	<b>90,068</b>	<b>(81,273)</b>	<b>313,016</b>
EBITDA before significant items	25,453	405	2,671	-	28,529
Depreciation and amortisation expense	(2,544)	(235)	(24)	-	(2,803)
<b>Segment result before significant items</b>	<b>22,909</b>	<b>170</b>	<b>2,647</b>	<b>-</b>	<b>25,726</b>
Significant items (excluding interest refer Note 5(b))	(2,976)	(1,249)	209	-	(4,016)
<b>Segment result including significant items</b>	<b>19,933</b>	<b>(1,079)</b>	<b>2,856</b>	<b>-</b>	<b>21,710</b>
Net borrowing costs					(7,103)
<b>Profit before income tax</b>					<b>14,607</b>
Income tax expense					(3,606)
<b>Profit after income tax</b>					<b>11,001</b>
<b>Total segment assets</b>	<b>232,950</b>	<b>8,743</b>	<b>32,875</b>	<b>(25,142)</b>	<b>249,426</b>
Non-current assets (other than financial assets and deferred tax)	116,133	3,247	1,602	-	120,982
Additions to non-current assets (other than financial assets and deferred tax)	5,618	85	149	-	5,852
	Australia \$'000	New Zealand \$'000	Rest of the World \$'000	Inter- segment eliminations \$'000	Consolidated \$'000
<b>2015</b>					
Sales to external customers	306,869	30,605	11,595	-	349,069
Inter-segment sales	1,769	29	118,655	(120,453)	-
<b>Total sales revenue</b>	<b>308,638</b>	<b>30,634</b>	<b>130,250</b>	<b>(120,453)</b>	<b>349,069</b>
Other revenue/income (excluding interest)	2,237	20	310	-	2,567
<b>Total segment revenue and other income</b>	<b>310,875</b>	<b>30,654</b>	<b>130,560</b>	<b>(120,453)</b>	<b>351,636</b>
EBITDA before significant items	20,774	1,661	2,750	-	25,185
Depreciation and amortisation expense	(2,256)	(357)	(46)	-	(2,659)
<b>Segment result before significant items</b>	<b>18,518</b>	<b>1,304</b>	<b>2,704</b>	<b>-</b>	<b>22,526</b>
Significant items (excluding interest refer Note 5(b))	(1,771)	(1,398)	-	-	(3,169)
<b>Segment result including significant items</b>	<b>16,747</b>	<b>(94)</b>	<b>2,704</b>	<b>-</b>	<b>19,357</b>
Net borrowing costs					(8,133)
<b>Profit before income tax</b>					<b>11,224</b>
Income tax expense					(2,384)
<b>Profit after income tax</b>					<b>8,840</b>
<b>Total segment assets</b>	<b>257,518</b>	<b>18,915</b>	<b>40,648</b>	<b>(34,140)</b>	<b>282,941</b>
Investments in joint ventures	8,556	-	273	-	8,829
Share of net profit of joint venture accounted for using the equity method	928	-	132	-	1,060
Non-current assets (other than financial assets and deferred tax)	100,139	1,913	1,696	-	103,748
Additions to non-current assets (other than financial assets and deferred tax)	11,216	266	16	-	11,498

## 8. INCOME TAX

### (a) Income tax expense

	2016 \$'000	2015 \$'000
Current tax	3,093	3,719
Deferred tax	67	(1,182)
Over/(under) provision in prior years	446	(153)
	<b>3,606</b>	2,384
Deferred income tax credit included in income tax expense comprises:		
(Increase) in deferred tax assets (Note 17)	(6)	(1,065)
Increase/(decrease) in deferred tax liabilities (Note 23)	73	(117)
	<b>67</b>	(1,182)

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

	2016 \$'000	2015 \$'000
Total operating profit before tax	14,607	11,224
Prima facie income tax expense at 30%	4,382	3,367
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of intangible assets	-	111
Non-assessable contingent consideration adjustment	-	(611)
Non-assessable gain on disposal of joint venture	(588)	-
Tax rate differences in overseas entities	(363)	(386)
Share-based payments expense/(income)	12	(11)
Non-assessable share of net profit of associates accounted for using the equity method	(547)	(318)
Under/(over) provision in prior years	446	(153)
Other	264	385
<b>Income tax expense</b>	<b>3,606</b>	2,384

### (c) Amounts recognised directly in equity

	2016 \$'000	2015 \$'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity:		
Deferred tax assets (Note 17)	(26)	12

### (d) Tax expense relating to items of other comprehensive income

Cash flow hedges (Notes 17, 23)	(1,435)	1,820
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# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 9. KEY MANAGEMENT PERSONNEL

	2016 \$	2015 \$
<b>Key management personnel compensation</b>		
Short-term employee benefits	2,192,286	2,752,288
Post-employment benefits	183,565	205,639
Long-term benefits	38,593	41,468
Share-based payments	24,399	(34,394)
	<b>2,438,843</b>	2,965,001

Detailed remuneration disclosures are provided in the Remuneration Report contained within the Directors' Report, which is in section (k) of the Directors' Report.

### Loans to key management personnel

There were no loans made to Directors of McPherson's Limited, or to any other key management personnel of the Group, including their personally-related entities during the current or previous year, nor were there any loans outstanding at the end of the current or previous financial year.

### Other transactions with key management personnel

During the year the Group sold minor quantities of its products for domestic use to key management personnel on terms and conditions no more favourable than those adopted when dealing with other employees at arm's length in the same circumstances.

There were no transactions between the consolidated entity and the Directors of McPherson's Limited or with any other key management personnel of the Group, including their personally-related entities, during the current or previous financial year other than those disclosed above, noted in Note 33, relating to remuneration and to transactions concerning preference shares.

## 10. CASH AND CASH EQUIVALENTS

	2016 \$'000	2015 \$'000
Cash on hand	12	11
Cash at bank and on deposit (at call)	16,478	11,272
	<b>16,490</b>	11,283
The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	16,490	11,283
<b>Cash balance per statement of cash flows</b>	<b>16,490</b>	11,283

## 11. TRADE AND OTHER RECEIVABLES

	2016 \$'000	2015 \$'000
Trade receivables	41,372	49,149
Provision for impairment	(214)	(378)
	<b>41,158</b>	48,771
Other receivables/prepayments	3,684	6,238
	<b>44,842</b>	55,009
Movements in the provision for impairment of trade receivables are as follows:		
Balance at 1 July	(378)	(189)
Provisions for impairment recognised during the year	-	(412)
Unused amount received	112	-
Written-off during the year as uncollectible	55	222
Foreign exchange	(3)	1
	<b>(214)</b>	(378)

Other receivables do not contain impaired assets and are not past due. It is expected that these amounts will be received in full when due. Due to the short-term nature of current receivables, their carrying amounts are assumed to be the same as their fair value.

### Credit risk

The credit risk relating to trade and other receivables of the Group which have been recognised on the balance sheet, is the carrying amount, net of any provision for impairment. The following provides an overview of the credit risk associated with trade receivables.

	2016 \$'000	2015 \$'000
Neither past due nor impaired	26,694	31,360
Past due, but not impaired:		
- less than 30 days	11,804	9,327
- 30 to 59 days	1,724	2,754
- 60 to 89 days	613	2,449
- 90 to 119 days	70	544
- 120 days or more	467	2,715
Gross carrying amount	41,372	49,149
Provision for impairment	(214)	(378)
Net carrying amount	<b>41,158</b>	48,771

### Credit risk concentration

Two external customers represent \$11,795,000 (2015: \$16,568,000) and \$2,587,000 (2015: \$5,573,000) respectively of the closing receivables balance. These debtor balances are in relation to the Australian business.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 12. INVENTORIES

	Note	2016 \$'000	2015 \$'000
Raw materials		4,478	5,333
Finished goods		55,683	46,840
Stock in transit		8,060	8,169
		<b>68,221</b>	60,342
Provision for inventory obsolescence	5(b)	<b>(8,434)</b>	(2,557)
		<b>59,787</b>	57,785

The basis of inventory valuation adopted is set out in Note 1(l).

Inventory recognised as expenses during the year ended 30 June 2016 amounted to \$179,513,000 (2015: \$208,485,000).

During the financial year, the Group has undertaken a brand product rationalisation in the Health & Beauty division. This review has resulted in a significant increase in the provision for stock obsolescence. In addition a provision was raised for the Impulse Merchandising division exited in July 2016.

During the current financial year, the Group has transferred back into inventories, inventories that were held for sale in the prior year (2015: \$19,676,000). Refer to Note 14(e) for further information.

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Group has the following financial instruments:

	2016 \$'000	2015 \$'000
<b>Current assets</b>		
Forward foreign exchange contracts – cash flow hedges	-	1,109
Foreign currency options – cash flow hedges	-	842
Total current derivative financial instrument assets	-	1,951
<b>Current liabilities</b>		
Interest rate contracts – cash flow hedges	654	409
Forward foreign exchange contracts – cash flow hedges	1,597	12
Foreign currency options – cash flow hedges	956	790
Total current derivative financial instrument liabilities	3,207	1,211
<b>Non-current liabilities</b>		
Interest rate contracts – cash flow hedges	1,905	1,601

### **13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

#### **(a) Instruments used by the Group**

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note 2). For information about the methods and assumptions used in determining the fair value of derivatives please refer to Note 2(e).

#### **Forward foreign exchange contracts – cash flow hedges**

The Group enters into forward foreign exchange contracts to hedge highly probable forecast purchases denominated in foreign currencies. The terms of these commitments are predominately eight months or less.

#### **Foreign currency options – cash flow hedges**

The Group has also entered into foreign currency option contracts to partially hedge a portion of anticipated United States dollar purchases. At balance date, the outstanding foreign currency option contracts cover the period from July 2016 to June 2017.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

#### **Interest rate swap contracts – cash flow hedges**

The Group has entered into an interest rate swap contract to reduce its exposure to possible increases in interest rates. Refer to Note 2 for further information.

#### **(b) Credit risk exposure**

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity.

Foreign exchange contracts, foreign currency options and interest rate swaps are subject to credit risk in relation to the relevant counterparties, which are major banks. The maximum credit risk exposure on hedging contracts is the full amount the Group pays when settlement occurs should the counterparty fail to pay the amount which it is committed to pay to the Group.

#### **(c) Interest rate and foreign exchange risk**

For an analysis of the sensitivity of derivatives to interest rate and foreign exchange risk refer to Note 2. There are no material sources of ineffectiveness in the Group's hedge relationships.

### **14. DISPOSAL, ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND INTEREST IN JOINT VENTURE**

#### **(a) Housewares disposal**

On 31 March 2016, the Fackelmann Group exercised its call options over the McPherson's Limited Group's 49% ownership in the Housewares New Zealand, Hong Kong and Singapore businesses. On the same date, McPherson's Limited Group exercised its put option over its 49% ownership in the Housewares Australia business. The divestment of the remaining shares generated proceeds of \$18,185,000.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 14. DISPOSAL, ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND INTEREST IN JOINT VENTURE (CONTINUED)

### (a) Housewares disposal (continued)

The details of the disposal are set out below:

	Note	\$'000
Cash received <sup>1</sup>		18,185
Carrying amount of equity investment in joint venture	14(d)	(13,038)
Contingent consideration receivable	2(e)	(4,686)
Stock written off		(58)
Gain on exercise of put/call options		403
Adjustment arising from reassessment of the put/call option		1,558
<b>Gain on sale of joint venture</b>		<b>1,961</b>
<sup>1</sup> Cash received during current financial year:		
Cash received on disposal of 51% of Housewares New Zealand	14(b)	125
Cash received on disposal of 49% of Housewares Australia, New Zealand, Hong Kong and Singapore		18,185
<b>Cash received per consolidated flow statement</b>		<b>18,310</b>

### (b) Housewares NZ Disposals

On 1 July 2015, the Group sold 51% of its New Zealand Housewares business to the Fackelmann Group for NZ\$2,279,000 paid in stages. The consideration received was equal to the adjusted carrying value of the net assets disposed. The Group's New Zealand Housewares business was disclosed as held for sale at 30 June 2015.

The details of the disposal are set out below:

	\$000's
Cash received	2,039
Fair value of put/call option	541
Total sale consideration	2,580
Fair value of 49% interest retained	2,458
Carrying amount of net assets disposed	(5,038)
<b>Gain on sale</b>	<b>-</b>

The carrying amounts of assets and liabilities disposed of:

	\$000's
Inventories	3,984
Property, plant and equipment	78
Intangible assets	1,060
Deferred tax assets	33
<b>Total assets</b>	<b>5,155</b>
Employee benefits	117
<b>Total liabilities</b>	<b>117</b>
<b>Net assets</b>	<b>5,038</b>

The fair value of the net assets sold was determined to be equivalent to their carrying value. As such the Group's 49% retained share was valued at \$2,458,000. This amount was recognised as the carrying value of the Group's investment in the joint venture immediately after the disposal. The consideration for the sale was received in two tranches, with \$1,914,000 received during June 2015 and \$125,000 received in September 2015.

During the period from 1 July 2015 to 31 March 2016 the Group has equity accounted for its share of the joint venture's net profit.

## 14. DISPOSAL, ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND INTEREST IN JOINT VENTURE (CONTINUED)

### (c) Prior Period

#### Housewares Australia, New Zealand, Singapore and Hong Kong disposal

On 31 October 2014 the Group transferred its Australian, Singapore and Hong Kong Housewares business into a new venture and then sold 51% of this venture to the Fackelmann Group. The Fackelmann Group is a global manufacturer and distributor of kitchen, baking, home, leisure and bathroom products. The venture markets and distributes the combined ranges of Housewares products.

As part of the disposal the parties entered into a reciprocal put/call option whereby, the Group has the option to put its remaining shares to the Fackelmann Group, and the Fackelmann Group has the option to call the Group to sell its remaining shares. The put and call options can be exercised by either party at any time after the first anniversary of the sale.

Based on the terms of the contract, the new venture is deemed to represent a joint venture on the basis that both stakeholders need to agree on decisions in several key areas. Consequently, the Group does not consolidate the results of this joint venture, rather it equity accounts for its share of the joint venture's profit or loss and movements in other comprehensive income. Any dividends received from the joint venture in future periods will be recognised as a reduction in the carrying amount of the Group's investment in this entity.

The details of the disposal are set out below:

	<b>\$000's</b>
Cash received	6,571
Fair value of put/call option	1,347
Total sale consideration	7,918
Fair value of 49% interest retained	7,607
Carrying amount of net assets disposed	(15,525)
<b>Gain on sale</b>	<b>-</b>

The carrying amounts of assets and liabilities disposed of:

	<b>\$000's</b>
Inventories	12,998
Property, plant and equipment	255
Intangible assets	3,435
Deferred tax assets	144
<b>Total assets</b>	<b>16,832</b>
Employee benefits	510
Deferred tax liabilities	797
<b>Total liabilities</b>	<b>1,307</b>
<b>Net assets</b>	<b>15,525</b>

The fair value of the net assets sold was determined to be equivalent to their carrying value. As such the Group's 49% retained share was valued at \$7,607,000. This amount was recognised as the carrying value of the Group's investment in the joint venture immediately after the disposal.

In the prior year, the Group has recognised a gain of \$1,240,000 on remeasurement of its put option associated with its remaining 49% investment in the Australian, Singapore and Hong Kong Housewares business. This revaluation is based on the expected performance of the joint venture.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 14. DISPOSAL, ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE AND INTEREST IN JOINT VENTURE (CONTINUED)

### (d) Interest in joint venture

Investment in Housewares Australia, New Zealand, Hong Kong and Singapore joint venture:

	\$000's
Movement during the year:	
Balance at 1 July 2015	8,829
Investment in joint venture	2,458
Share of net profit in joint venture	1,825
Shares of other comprehensive income of joint venture	(74)
Sale of remaining shares	(13,038)
<b>Closing balance at 30 June 2016</b>	<b>-</b>

### (e) Assets and liabilities classified as held for sale

During the financial year ended 30 June 2015, the Directors decided to pursue a sale of the Group's Housewares New Zealand businesses. As previously disclosed, the sale of the Housewares New Zealand business to the Fackelmann Group took place on 1 July 2015.

Further, the Group previously was pursuing the sale of the household consumables business. The net assets of the business are no longer deemed as held for sale. The net assets have been reclassified to their respective financial statement line items in the Balance Sheet. Note the net asset value of the business at 30 June 2016 was approximately \$29,300,000 (excluding any trade debtors or creditors). This amount includes inventory (\$12,700,000), brandname (\$20,166,000), goodwill (\$2,784,000), offset by deferred tax liability (\$6,050,000) and employee entitlements (\$300,000). No impairment writedowns were required as a result of the reclassification of these items.

	30 June 2016 \$000's	30 June 2015 \$000's
Inventories	-	19,676
Property, plant and equipment	-	102
Intangible assets	-	24,010
Deferred tax assets	-	117
<b>Total assets classified as held for sale</b>	<b>-</b>	<b>43,905</b>
Employee benefits	-	397
Deferred tax liabilities	-	6,050
<b>Total liabilities directly associated with assets classified as held for sale</b>	<b>-</b>	<b>6,447</b>

In the prior year, the assets classified as held for sale have been measured at the lower of cost and fair value less costs to sell. An impairment charged to goodwill of \$1,240,000 was required for the New Zealand Housewares business as a result of the reclassification and measurement of these items.

## 15. PROPERTY, PLANT AND EQUIPMENT

	2016 \$'000	2015 \$'000
<b>Leasehold improvements:</b>		
At cost	292	278
Accumulated amortisation	(240)	(230)
<b>Total leasehold improvements</b>	<b>52</b>	<b>48</b>
<b>Plant and equipment:</b>		
At cost	32,887	29,535
Accumulated depreciation	(27,096)	(24,082)
<b>Total plant and equipment</b>	<b>5,791</b>	<b>5,453</b>
<b>Total property, plant and equipment</b>	<b>5,843</b>	<b>5,501</b>

### (a) Reconciliations

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Carrying amount at 1 July 2014</b>	63	5,977	6,040
Additions	-	1,969	1,969
Assets classified as held for sale	-	(78)	(78)
Disposals	(8)	(131)	(139)
Depreciation expense	(4)	(2,252)	(2,256)
Foreign currency exchange differences	(3)	(32)	(35)
<b>Carrying amount at 30 June 2015</b>	<b>48</b>	<b>5,453</b>	<b>5,501</b>
Additions	-	2,953	2,953
Disposals	-	(58)	(58)
Transfers	-	(234)	(234)
Transfer of assets previously held for sale	-	24	24
Impairment	-	(197)	(197)
Depreciation expense	-	(2,204)	(2,204)
Foreign currency exchange differences	4	54	58
<b>Carrying amount at 30 June 2016</b>	<b>52</b>	<b>5,791</b>	<b>5,843</b>

During the year the Group transferred \$234,000 of fixed assets to intangible assets.

### (b) Non-current assets pledged as security

Refer to Note 21 for information on non-current assets pledged as security by the parent entity and certain controlled entities.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 16. INTANGIBLE ASSETS

	2016 \$'000	2015 \$'000
Goodwill	37,785	34,764
Brandnames	74,226	52,153
Other intangibles	8,292	7,511
Accumulated amortisation	(5,164)	(5,010)
	<b>3,128</b>	2,501
<b>Total intangibles</b>	<b>115,139</b>	89,418

### Reconciliations

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the financial year are set out below:

	Note	Goodwill \$'000	Brandnames \$'000	Other Intangibles \$'000	Total \$'000
<b>Carrying amount at 30 June 2014</b>		37,464	49,259	1,543	88,266
Additions		-	42	1,426	1,468
Acquisition of brands	31	-	7,257	-	7,257
Transfers/adjustments	14, 31	(2,270)	(4,140)	-	(6,410)
Disposals		-	-	(65)	(65)
Impairment charge		(372)	(265)	-	(637)
Amortisation charge		-	-	(403)	(403)
Foreign currency exchange differences		(58)	-	-	(58)
<b>Carrying amount at 30 June 2015</b>		<b>34,764</b>	<b>52,153</b>	<b>2,501</b>	<b>89,418</b>
Additions		-	1,907	992	2,899
Transfers		-	-	234	234
Transfer of assets previously held for sale	14(e)	2,784	20,166	-	22,950
Amortisation charge		-	-	(599)	(599)
Foreign currency exchange differences		237	-	-	237
<b>Carrying amount at 30 June 2016</b>		<b>37,785</b>	<b>74,226</b>	<b>3,128</b>	<b>115,139</b>

Acquired brandnames are not amortised under AASB 138 *Intangible Assets*, as the Directors consider these to have an indefinite life. The brandnames are subject to an annual impairment test.

During the current financial year, the Group had settled the terms of the final consideration payable for the Dr. LeWinn's and Revitanail acquisition. As such \$1,907,000 (including related stamp duty) has been capitalised to the carrying amount of the brandnames.

The Group previously was pursuing the sale of the household consumables business. The net assets of the business are no longer deemed as held for sale. The net assets have been reclassified to their respective financial statement line items in the Balance Sheet. This included brandname (\$20,166,000), goodwill (\$2,784,000), offset by deferred tax liability.

## 16. INTANGIBLE ASSETS (CONTINUED)

During the prior year, the Group was required to assess its provision for contingent consideration payable at each balance date. Based on this review an amount of \$4,140,000 had been adjusted against the associated brandnames. Refer to Note 31 for further information.

### Impairment Testing

#### Goodwill

Goodwill is allocated to the following cash generating units:

	2016 \$'000	2015 \$'000
Australia (excluding Home Appliances)	15,677	13,042
Home Appliances	19,393	19,393
New Zealand	2,715	2,329
	<b>37,785</b>	34,764

The recoverable amount of a cash generating unit is determined based on a value-in-use calculation. These calculations use cash flow projections based on financial budgets/forecasts covering a one year period. Cash flows beyond the projected period are extrapolated using estimated growth rates. In performing the value-in-use calculations for each cash generating unit, the Group has applied a post-tax discount rate to discount the forecast future attributable post-tax cash flows.

The assumptions used in the value-in-use calculations, for all cash generating units, are set out below:

	30 JUNE 2016				30 JUNE 2015		
	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate	Estimated Growth Rates Year 2 Onwards	Post-Tax Discount Rate	Pre-Tax Discount Rate
Australia (ex Home Appliances)	2.0%	2.0%	10.0%	13.7%	2.0%	9.8%	13.1%
Home Appliances	3.0%	2.5%	10.3%	13.8%	3.0%	10.0%	13.1%
New Zealand	2.0%	2.0%	10.8%	13.7%	2.0%	10.3%	14.0%

In addition to the above, it is noted that the year one cash flow projection is a key assumption within the value-in-use calculations. The cash flow projections used for the year one cash flows are based on the Board approved financial budgets/forecasts. The budgets reflect the Board's expectation of improved cash flows, for the Australian (excluding Home Appliances) cash-generating unit, arising from profit optimisation initiatives, new product launches and the inventory rationalisation project. At 30 June 2016, the value-in-use calculations for all cash generating units exceeded the carrying value of their net assets. The surplus amount within the Australia (excluding Home Appliances) calculation is \$53,648,000 (June 2015: \$16,713,000). The surplus amount within the Home Appliances calculation is \$2,681,000 (June 2015: \$21,144,000). The surplus amount within the New Zealand calculation is NZD\$3,015,000 (June 2015: NZD\$127,000).

#### Impairment charge

In the prior year, an impairment charge of \$372,000 was recognised against the goodwill allocated to the Group's New Zealand cash generating unit. The recoverable amount used in the goodwill calculations was based on a value-in-use model. The impairment charge was a direct result of the decision to divest a minor single branded part of the business.

The impairment charge was included within the New Zealand reportable segment disclosed within Note 7 Segment Information. The discount rate and other key assumptions used in the value-in-use calculations are disclosed above.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 16. INTANGIBLE ASSETS (CONTINUED)

### Impact of possible changes in key assumptions

If the year one earnings before interest and tax (EBIT) used in the value-in-use calculation for the Home Appliances cash generating unit were to be 10.0% below the current estimated EBIT, an impairment loss of \$2,290,000 would arise.

If the post-tax discount rate used in the value-in-use calculation for the Home Appliances cash generating unit was to be 1.0 percentage point higher than management's estimate (11.25% instead of 10.25%), an impairment loss of \$2,572,000 would arise.

If the terminal year growth rate used in the value-in-use calculation for the Home Appliances cash generating unit was to be 1.0 percentage point lower than management's estimate (1.5% instead of 2.5%), an impairment loss of \$1,699,000 would arise.

If the year one earnings before interest and tax (EBIT) used in the value-in-use calculation for the New Zealand cash generating unit were to be \$677,000 below the current estimated EBIT, the entire goodwill balance would be impaired.

### Brandnames

Brandnames are tested for impairment on an individual basis annually and more frequently if events or changes in circumstances indicate that they might be impaired. The recoverable amount of a brandname is determined based on the higher of value-in-use or fair value less costs to sell calculations.

The value-in-use calculations are prepared using a discounted cash flow analysis of the future net contribution expected to be generated by the brand, which is based on financial budgets/forecasts covering a one year period. Cash flows beyond the projected period are extrapolated using estimated growth rates. In performing the value-in-use calculations the Group has applied a post-tax discount rate to discount the forecast future attributable post-tax cash flows.

The assumptions used in the value-in-use calculations, for all brandnames tested using this method, are set out below.

	2016	2015
Estimated growth rates	1.0% - 5.0%	1.0% - 3.0%
Post-tax discount rates	10.0% - 10.3%	9.8% - 10.0%
Pre-tax discount rate equivalents	12.9% - 13.9%	13.0% - 13.1%

At 30 June 2016, the total carrying value of brandnames tested using the value-in-use method was \$74,226,000 (2015: \$52,153,000). The value-in-use calculations for these brandnames exceeded their carrying values.

In the current year no brands have been tested using the fair value less costs to sell method. In the prior year \$20,166,000 of the Group's brandname assets were classified as being held for sale at 30 June 2015 and were therefore tested using the fair value less costs to sell method.

In the prior year an impairment charge of \$265,000 was recognised as a result of the Australian business deciding to discontinue a minor brand.

### Impact of possible changes in key assumptions

If the year one projected sales by brand were 10.0% below the current estimates used in the value-in-use calculations, an impairment would arise of \$2,321,000 (2015: impairment of \$557,000).

If the year one contribution margin percentages were 2.0 percentage points below the current estimates used in the value-in-use calculations, no brand impairment charge would arise (2015: Nil impairment).

If the terminal year growth rates used in the value-in-use calculations were to be 1.0 percentage point lower than management's estimates, no brand impairment would arise (2015: Nil impairment).

## 17. DEFERRED TAX ASSETS

	2016 \$'000	2015 \$'000
The balance comprises temporary differences attributable to:		
Cash flow hedges	1,530	868
Employee benefits	1,954	1,969
Depreciation	1,093	1,143
Inventory obsolescence	603	203
Transaction costs arising on share issues	79	110
Trade receivables impairment	60	110
Claims and returns	237	114
Warranty	652	546
Other provisions and accruals	386	492
<b>Total temporary differences</b>	<b>6,594</b>	<b>5,555</b>

### Movements

	Cash Flow Hedges \$'000	Employee Benefits \$'000	Depreciation \$'000	Obsolescence \$'000	Transaction Costs Arising on Share Issues \$'000	Other \$'000	Total \$'000
<b>Opening balance at 1 July 2014</b>	1,423	1,686	1,281	364	179	1,077	6,010
Credited/(charged) to profit or loss (Note 8)	682	346	(16)	(169)	-	222	1,065
Credited/(charged) to equity	(1,237)	-	-	-	2	(15)	(1,250)
Amortisation of transaction costs on share issues	-	-	-	-	(71)	-	(71)
Transfers	-	(37)	-	-	-	-	(37)
Over provision in prior years	-	(21)	(122)	-	-	(7)	(150)
Foreign currency exchange differences	-	(5)	-	8	-	(15)	(12)
<b>Closing balance at 30 June 2015</b>	<b>868</b>	<b>1,969</b>	<b>1,143</b>	<b>203</b>	<b>110</b>	<b>1,262</b>	<b>5,555</b>
Credited/(charged) to profit or loss (Note 8)	(185)	(55)	(46)	362	-	(70)	6
Credited to equity	843	-	-	-	26	-	869
Amortisation of transaction costs on share issues	-	-	-	-	(57)	-	(57)
Transfers	-	35	(14)	-	-	-	21
Under provision in prior years	4	10	13	19	-	149	195
Foreign currency exchange differences	-	(5)	(3)	19	-	(6)	5
<b>Closing balance at 30 June 2016</b>	<b>1,530</b>	<b>1,954</b>	<b>1,093</b>	<b>603</b>	<b>79</b>	<b>1,335</b>	<b>6,594</b>

	2016 \$'000	2015 \$'000
Deferred tax assets to be recovered within 12 months	4,593	3,373
Deferred tax assets to be recovered after more than 12 months	2,001	2,182
	<b>6,594</b>	<b>5,555</b>

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 18. TRADE AND OTHER PAYABLES

	2016 \$'000	2015 \$'000
Trade payables	25,400	37,501
Other payables	23,410	22,926
	<b>48,810</b>	60,427

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

## 19. BORROWINGS - CURRENT

	2016 \$'000	2015 \$'000
Bank loans - secured	17,000	-
Other borrowings	503	406
	<b>17,503</b>	406

The fair values of the Group's current borrowings are not materially different to their carrying amounts, since the interest payable on those borrowings is at current market rates or the borrowings are short-term in nature.

Of the borrowings, \$17,000,000 relates to a secured working capital loan. The Group's facility is denominated in Australian dollars and the facility limit is \$48,250,000. This facility provides an additional \$9,000,000 seasonal uplift during the period 1 August to 28 February. Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

The remaining loan balance relates to other financing facility.

The Group has complied with the financial covenants of its borrowing facilities during the current year, see Note 24 for details.

## 20. PROVISIONS - CURRENT

	2016 \$'000	2015 \$'000
Employee entitlements	5,598	5,837
Contingent consideration	-	6,637
Claims, returns and warranty	2,176	2,042
Restructure	333	1,409
Employee incentives	872	291
Other	295	348
	<b>9,274</b>	16,564

### (a) Employee entitlements

Amounts reflect employees' entitlement to take accrued annual leave and long service leave during the next 12 months. Based on past experience, the Group expects that approximately 50% of the current balance will be taken or paid within the next 12 months.

### (b) Contingent consideration

A number of the Group's recent acquisitions have included a contingent consideration arrangement whereby the Group may be required to pay the vendors a variable amount of money depending on the performance of the acquired business or asset over a set period post acquisition. In accordance with Australian Accounting Standards, management is required to estimate how much of the contingent consideration it expects to pay in the future and raise a provision for this amount. The estimated amount is required to be reassessed each balance date. Refer to Note 31 for further information.

### (c) Claims, returns and warranty

Provision is made for the estimated product related claims and returns by customers.

## 20. PROVISIONS - CURRENT (CONTINUED)

### (d) Restructure

During the 2016 and 2015 financial years, the Group commenced a restructuring program to continue to align the Group's structure with the current strategy and environment. Since the restructuring plans for both years were formally announced to the employees prior to the end of the year, a provision has been raised as at the end of both financial years for the restructuring activities that are still to be completed.

### (e) Employee incentives

Amounts reflect incentive payments to employees on the basis that certain criteria were fulfilled during the financial year.

### (f) Other

Miscellaneous obligations for which there is a probability of an outflow of resources.

### Movement in provisions

Movements in each class of provision during the financial year, other than employee entitlements, are set out below:

	Contingent consideration \$'000	Claims, returns and warranty \$'000	Restructure \$'000	Employee incentives \$'000	Other \$'000
<b>Carrying amount at 1 July 2015</b>	<b>6,637</b>	<b>2,042</b>	<b>1,409</b>	<b>291</b>	<b>348</b>
Additional provisions charged to profit or loss	-	<b>3,331</b>	<b>333</b>	<b>1,346</b>	<b>160</b>
Unused amounts reversed to profit or loss	-	-	-	<b>(13)</b>	-
Payments	<b>(6,637)</b>	<b>(3,197)</b>	<b>(1,409)</b>	<b>(755)</b>	<b>(213)</b>
Foreign currency exchange differences	-	-	-	<b>3</b>	-
<b>Carrying amount at 30 June 2016</b>	<b>-</b>	<b>2,176</b>	<b>333</b>	<b>872</b>	<b>295</b>

## 21. BORROWINGS - NON-CURRENT

	2016 \$'000	2015 \$'000
<b>Secured liabilities</b>		
Bank loans - secured	-	30,000
<b>Unsecured liabilities</b>		
Bonds	<b>50,000</b>	60,000
Debt issue Costs	<b>(1,114)</b>	(1,931)
	<b>48,886</b>	88,069

In April 2015 the Group completed its refinancing and significantly changed the structure and tenure associated with its funding sources. The Group's new facilities are denominated in Australian dollars and comprise:

- \$25,000,000 unsecured variable rate corporate bonds. The bonds mature in March 2019 and pay a coupon rate of 4.3% over the 90 day Bank Bill Swap Rate;
- \$25,000,000 unsecured fixed rate corporate bonds. The bonds mature in March 2021 and pay a fixed rate of 7.10%;
- In April 2016, the Group completed a bonds buy back of \$5,000,000 unsecured variable rate corporate bonds and \$5,000,000 unsecured fixed rate corporate bonds. The bonds buy back consideration was \$9,977,000 for face value of \$10,000,000.
- The secured bank loans are recorded within current borrowings in Note 19.

The fair value of the Group's non-current borrowings approximates their carrying amount.

Refer to Note 24 for details on the financial covenants associated with the Group's borrowings.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 21. BORROWINGS – NON-CURRENT (CONTINUED)

### Security for borrowings

The Group provides security to its bankers to secure the two year revolving working capital facility and bank overdraft. The security provided also secures letters of credit provided by the Group's bankers to overseas banks to support bank overdraft and loan facilities of controlled entities.

The Group facilities are secured by the following:

- Fixed and floating charges over the assets of the parent and certain controlled entities
- Mortgages over shares held in certain controlled entities
- Cross guarantees and indemnities provided by the parent entity and certain controlled entities.

### Assets pledged as security

	2016 \$'000	2015 \$'000
<b>Fixed charge</b>		
Property, plant and equipment	5,684	5,576
Intangible assets	114,117	112,437
Other financial assets (including investment in joint venture)	-	11,250
<b>Total non-current assets pledged as security</b>	<b>119,801</b>	<b>129,263</b>
The following current assets are also pledged as security:		
<b>Fixed charge</b>		
Receivables	41,088	50,098
<b>Floating charge</b>		
Cash	14,400	10,682
Inventories	57,921	76,100
Receivables	1,537	1,775
Derivative financial instruments	-	1,951
<b>Total current assets pledged as security</b>	<b>114,946</b>	<b>140,606</b>
<b>Total assets pledged as security</b>	<b>234,747</b>	<b>269,869</b>

Where relevant the amounts disclosed above include amounts that are separately disclosed as held for sale in the Group's consolidated balance sheet.

## 22. PROVISIONS – NON-CURRENT

	2016 \$'000	2015 \$'000
Employee entitlements	1,000	1,115

The non-current provision for employee entitlements relates to the Group's liability for long service leave.

## 23. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

	2016 \$'000	2015 \$'000
Brandnames	13,791	7,741
Cash flow hedges	-	586
Prepayments	74	8
Depreciation	4	4
Other	24	24
<b>Total temporary differences</b>	<b>13,893</b>	<b>8,363</b>
Deferred tax liabilities to be settled within 12 months	33	607
Deferred tax liabilities to be settled after more than 12 months	13,860	7,756
	<b>13,893</b>	<b>8,363</b>

## 23. DEFERRED TAX LIABILITIES (CONTINUED)

### Movements

	Brandnames \$'000	Cash Flow Hedges \$'000	Other \$'000	Total \$'000
<b>Consolidated</b>				
<b>Closing balance at 30 June 2014</b>	7,821	–	81	7,902
(Credited)/charged to profit or loss (Note 8)	(80)	9	(46)	(117)
Charged to equity	–	583	–	583
Over provision in prior years	–	–	2	2
Foreign exchange	–	(6)	(1)	(7)
<b>Closing balance at 30 June 2015</b>	<b>7,741</b>	<b>586</b>	<b>36</b>	<b>8,363</b>
Charged to profit or loss (Note 8)	–	–	73	73
(Credited) to equity	–	(592)	–	(592)
Transfer of assets previously held for sale	6,050	–	–	6,050
Under provision in prior years	–	–	(7)	(7)
Foreign exchange	–	6	–	6
<b>Closing balance at 30 June 2016</b>	<b>13,791</b>	<b>–</b>	<b>102</b>	<b>13,893</b>

## 24. CONTRIBUTED EQUITY

	2016 \$'000	2015 \$'000
Issued and paid up capital: 103,318,229 (June 2015: 97,338,017) ordinary shares – fully paid	154,042	149,191

### Movements in ordinary share capital

Date	Details	Number of Shares	Price \$	\$'000
1 July 2014	Opening balance	95,434,645		147,003
10 November 2014	Shares issued – Dividend reinvestment plan for 30 June 2014 final dividend	1,249,762	1.18	1,475
9 April 2015	Shares issued – Dividend reinvestment plan for 31 December 2014 interim dividend	653,610	1.10	719
	Transaction costs associated with share issues			(9)
	Tax effect of share issue transaction costs recognised directly in equity			3
<b>30 June 2015</b>	<b>Closing Balance</b>	<b>97,338,017</b>		<b>149,191</b>
	Shares issued – Dividend reinvestment plan for 30 June 2015 final dividend	331,404	0.68	224
	Shares issued – Dividend reinvestment plan for 31 December 2015 interim dividend	769,291	0.83	639
	Shares issued – Dividends underwritten	4,879,517	0.83	4,050
	Transaction costs associated with share issues			(89)
	Tax effect of share issue transaction costs recognised directly in equity			27
<b>30 June 2016</b>	<b>Closing Balance</b>	<b>103,318,229</b>		<b>154,042</b>

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

### Options and performance rights

Information relating to the Group's employee performance rights and options plans, including details of performance rights issued and outstanding at the end of the year, is set out in the Remuneration Report within the Directors' Report and within Note 26.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 24. CONTRIBUTED EQUITY (CONTINUED)

### Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash assets. Total capital is calculated as net debt plus total equity.

	<b>2016</b> <b>\$'000</b>	<b>2015</b> <b>\$'000</b>
Total borrowings (Note 19, 21)	<b>66,389</b>	88,475
Less: Cash assets (Note 10)	<b>(16,490)</b>	(11,283)
<b>Net debt</b>	<b>49,899</b>	77,192
<b>Total equity</b>	<b>104,485</b>	98,738
<b>Total capital</b>	<b>154,384</b>	175,930
<b>Gearing ratio</b>	<b>32.3%</b>	43.9%

Under the terms of the borrowing facilities the Group is required to comply with the following key financial covenants:

- The secured leverage ratio must not exceed 2.50 times on the secured bank facility;
- The total leverage ratio must not exceed 4.50 times;
- The EBIT interest cover ratio must not be less than 3.50 times; and
- Total Shareholder funds must not be less than \$80,000,000.

## 25. RESERVES AND ACCUMULATED LOSS

### (a) Reserves

	2016 \$'000	2015 \$'000
Hedging reserve – cash flow hedges	(2,502)	888
Share-based payments reserve	1,412	1,373
Foreign currency translation reserve	1,725	672
	<b>635</b>	<b>2,933</b>
<b>Hedging reserve – cash flow hedges:</b>		
Balance 1 July	888	(3,417)
Revaluation – gross	(2,528)	1,276
Deferred tax (Note 17, 23)	765	(369)
Transfer to cost of sales – gross	(1,332)	2,913
Deferred tax (Note 17, 23)	388	(870)
Transfer to finance costs – gross	(942)	1,936
Deferred tax (Note 17, 23)	282	(581)
Reclassification of reserves to profit and loss on disposal of joint venture	(23)	–
<b>Balance 30 June</b>	<b>(2,502)</b>	<b>888</b>
<b>Share-based payments reserve:</b>		
Balance 1 July	1,373	1,409
Share-based payments	39	(36)
<b>Balance 30 June</b>	<b>1,412</b>	<b>1,373</b>
<b>Foreign currency translation reserve:</b>		
Balance 1 July	672	(577)
Currency translation differences arising during the year	1,117	1,249
Reclassification of reserves to profit and loss on disposal of joint venture	(64)	–
<b>Balance 30 June</b>	<b>1,725</b>	<b>672</b>

### (b) Accumulated losses

	2016 \$'000	2015 \$'000
Balance 1 July	(53,386)	(51,653)
Profit after tax	11,001	8,840
Dividends provided for or paid	(7,807)	(10,573)
<b>Balance 30 June</b>	<b>(50,192)</b>	<b>(53,386)</b>

### (c) Nature and purpose of reserves

#### Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on hedging instruments in cash flow hedges that are recognised in other comprehensive income as described in Note 1(o). Amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

#### Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued at grant date but not exercised.

#### Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 1(d). The reserve is recognised in profit or loss when the net investment is disposed of.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 26. SHARE-BASED PAYMENTS

### (a) Employee Performance Rights Plan

The McPherson's Limited Employee Performance Rights Plan was introduced and approved by shareholders at the 2013 Annual General Meeting. The Performance Rights Plan is designed to provide long-term incentives for senior executives to deliver long-term shareholder returns. Under this plan, participants are granted performance rights which only vest if certain performance conditions (relating to compound annual growth in earnings per share) are met and the executive is still employed by the Group at the end of the vesting period. Participation in the plan is at the discretion of the Nomination and Remuneration Committee and no individual has a contractual right to receive any guaranteed benefits.

Performance rights are issued to the Managing Director and certain other senior executives as part of their remuneration. Each right is entitled to acquire one share for no consideration subject to the satisfaction of the vesting conditions which are based on performance and time related conditions. The number of rights that will vest are determined proportionately on a straight line basis based on the compound annual growth rate (CAGR) of the Group's earnings per share (EPS) over a two to three year period (depending on the terms of issue). The base EPS to be used in determining whether the vesting conditions have been satisfied is the reported underlying EPS for the 30 June financial year immediately prior to when the rights were issued. The underlying EPS is subject to further adjustment at the discretion of the Nomination and Remuneration Committee when considered appropriate. The rights will vest proportionately from no rights vesting if the Group's EPS CAGR is 3.0% or less to 100% of rights vesting if the Group's EPS CAGR is 8.0% or higher. The performance rights carry no dividend or voting rights.

Set out below is a summary of rights granted under the plan:

	2016		2015	
	Average fair value at grant date	Number of rights	Average fair value at grant date	Number of rights
<b>As at 1 July</b>	<b>\$1.19</b>	<b>736,000</b>	\$1.26	416,000
Granted during the year	<b>\$0.50</b>	<b>1,015,000</b>	\$1.11	320,000
Lapse during the year	-	<b>(292,000)</b>	-	-
<b>As at 30 June</b>	<b>\$0.70</b>	<b>1,459,000</b>	\$1.19	736,000
Vested and exercisable	-	-	-	-

The fair value at grant date was independently valued using the market price of the Company's shares on grant date and the Company's dividend yield (both historic and future yield estimates) as key inputs.

Performance rights outstanding at the end of the year have the following expiry dates:

Grant date	Vesting date	NUMBER OF RIGHTS	
		30 June 2016	30 June 2015
20 November 2013	16 September 2015	-	208,000
20 November 2013	16 September 2016	<b>163,000</b>	208,000
24 November 2014	18 September 2017	<b>281,000</b>	320,000
27 October 2015	18 September 2018	<b>1,015,000</b>	-
<b>Total</b>		<b>1,459,000</b>	736,000

## 26. SHARE-BASED PAYMENTS (CONTINUED)

### (b) Employee Option Plan

Previously long-term incentives were provided to executives via the McPherson's Limited Employee Option Plan. Under this plan, executives were granted options which would only vest if certain performance conditions (relating to total shareholder return) were met and the employees were still employed by the Group at the end of the vesting period. Participation in the plan is at the discretion of the Nomination and Remuneration Committee and no individual has a contractual right to receive any guaranteed benefits. The options carry no dividend or voting rights. Set out below is a summary of movements in options granted under the plan:

	2016		2015	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
<b>As at 1 July</b>	-	-	\$1.70	750,000
Cancelled during the year	-	-	\$1.70	(750,000)
<b>As at 30 June</b>	-	-	-	-
Vested and exercisable	-	-	-	-

### Expenses/(income) arising from share-based payment transactions

Total expenses/(income) arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2016 \$'000	2015 \$'000
Performance rights issued under the employee performance rights plan	39	(36)

## 27. CONTRACTUAL COMMITMENTS FOR EXPENDITURE

### (a) Capital commitments

Aggregate capital expenditure contracted for at balance date, but not provided for in the accounts, due:

	2016 \$'000	2015 \$'000
Not later than one year	455	246

The Group primarily leases offices, warehouses, motor vehicles and equipment under non-cancellable leases expiring within one to seven years. The leases have varying terms and renewal rights. On renewal, the terms are renegotiated.

### (b) Operating leases

	2016 \$'000	2015 \$'000
Aggregate amount of non-cancellable operating leases contracted for at balance date, but not provided for in the accounts, due:		
Not later than one year	6,397	6,205
Later than one year but not later than five years	16,675	17,308
Later than five years	3,485	6,888
	<b>26,557</b>	<b>30,401</b>

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 28. CONTINGENT LIABILITIES

From time to time, and in the ordinary course of business, claims arise against the Group including claims relating to product and general liability. The Directors consider these claims to be minor which will not materially affect the results of the Group.

## 29. REMUNERATION OF AUDITORS

	2016 \$	2015 \$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
<b>(a) PricewaterhouseCoopers Australia</b>		
<b>(i) Audit and other assurance services</b>		
Audit and review of financial statements	355,000	416,639
Other assurance services		
Earn-out statement audit	-	15,000
Total remuneration for audit and other assurance services	355,000	431,639
<b>(ii) Other services</b>		
Tax advice relating to employee performance rights plan	2,000	1,500
Due diligence review	103,049	67,032
Dispute support services	28,013	205,000
Total remuneration for other services	133,062	273,532
Total remuneration of PricewaterhouseCoopers Australia	488,062	705,171
<b>(b) Network firms of PricewaterhouseCoopers Australia</b>		
<b>(i) Audit and other assurance services</b>		
Audit and review of financial statements	38,115	5,300
Total remuneration for audit and other assurance services	38,115	5,300
Total remuneration of network firms of PricewaterhouseCoopers Australia	526,177	710,471
<b>(c) Non PricewaterhouseCoopers audit firms</b>		
<b>(i) Audit and other assurance services</b>		
Audit and review of financial statements	35,157	29,368
Total remuneration of non-PricewaterhouseCoopers audit firms	35,157	29,368
<b>Total auditor's remuneration</b>	<b>561,334</b>	<b>739,839</b>

## 30. EARNINGS PER SHARE

	2016 Cents	2015 Cents
Basic earnings per share	11.1	9.2
Diluted earnings per share	11.1	9.2
Basic earnings per share excluding significant items	13.6	12.4

### Reconciliation of earnings used in calculating earnings per share

	2016 \$'000	2015 \$'000
<b>Basic and diluted earnings per share</b>		
Profit for the period (excluding significant items)	13,438	11,962
Significant items, net of tax	(2,437)	(3,122)
Profit for the period	11,001	8,840

### 30. EARNINGS PER SHARE (CONTINUED)

#### Weighted average number of shares used as the denominator

	2016 Number	2015 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	98,849,571	96,372,429
Potential ordinary shares	-	-
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	98,849,571	96,372,429
Performance rights that are not dilutive and are therefore not included in the calculation of diluted earnings per share	1,459,000	736,000

#### Information concerning the classification of securities

##### Performance rights

Performance rights granted to employees are considered to be potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they are dilutive. The performance rights have not been included in the determination of basic earnings per share.

The outstanding performance rights are not included in the calculation of diluted earnings per share because they are anti dilutive for the years ended 30 June 2016 and 2015. These performance rights could potentially dilute basic earnings per share in the future.

750,000 options granted to employees were cancelled during the prior year, those options were not dilutive.

### 31. ACQUISITIONS

#### (a) Current Period

##### (i) Acquisition

On 6 July 2015 the Group's Australian business acquired the remaining 17.79% of the Home Appliances business for \$6,637,000. The Home Appliances business is now a 100% owned subsidiary of the Group.

##### (ii) Contingent consideration

During the year, the Group had settled the terms of the final consideration payable for the Dr. LeWinn's and Revitanail acquisition. As such \$1,907,000 (including related stamp duty) has been capitalised to the carrying amount of the brandnames. At 30 June 2015 due to the facts and circumstances known at that time, no provision was held by the Group for this settlement.

#### (b) Prior period

##### (i) A'kin, Al'chemy and Lapurete

On 1 December 2014, the Group's Australian consumer products business finalised its acquisition of the brandnames and associated assets of natural skincare brands A'kin and Lapurete and natural hair care brand Al'chemy.

Details of the purchase consideration and the assets acquired are as follows:

	\$'000
<b>Purchase consideration</b>	
Cash paid	8,061
<b>Total purchase consideration</b>	<b>8,061</b>
The assets acquired were as follows:	
Inventories	787
Property, plant and equipment	17
Brandnames	7,257
<b>Net assets acquired</b>	<b>8,061</b>
<b>Purchase consideration – cash outflow</b>	
Cash consideration paid	8,061
<b>Outflow of cash to acquire business assets – investing activities</b>	<b>8,061</b>

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 31. ACQUISITIONS (CONTINUED)

### (b) Prior period (continued)

#### (ii) Contingent consideration

At 30 June 2015 the Group was required to reassess the amount of contingent consideration it expects to pay relating to a number of acquisitions undertaken in prior periods. Based on the facts and circumstances that existed at 30 June 2015 the Group determined that the provision required to be held was \$6,637,000. As a result of this, the Group adjusted down its contingent consideration provision by \$6,176,000, after allowing for costs paid during the year. Of this amount, \$4,140,000 has been adjusted against brandname intangible assets, since this amount related to an asset only acquisition. The other \$2,036,000 of the adjustment was required to be recognised in profit or loss as a contingent consideration gain since this amount related to a business combination transaction. This amount has been separately disclosed within the revenue and other income section of the Statement of Comprehensive Income and within Note 5(b) Significant Items.

## 32. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION
McPherson's Limited	Australia
<b>Controlled entities of McPherson's Limited</b>	
Domenica Pty Ltd *	Australia
McPherson's Consumer Products (NZ) Limited	New Zealand
McPherson's Consumer Products Pty Ltd *	Australia
Home Appliances Pty Ltd **	Australia
Electrical Distributors Australia Pty Ltd	Australia
Electrical Distributors Repairs Servicing Pty Ltd	Australia
Euromaid Cooking Appliances NZ Limited	New Zealand
Integrated Appliance Group Pty Ltd	Australia
ARC Appliance Group Pty Ltd	Australia
McPherson's Consumer Products Pte Ltd	Singapore
Multix Pty Ltd *	Australia
McPherson's America Inc.	USA
McPherson's Publishing Inc	USA
Regent-Sheffield Ltd	USA
McPherson's Hong Kong Limited	Hong Kong
McPherson's Consumer Products (HK) Limited	Hong Kong
Cork International Far East Limited	Hong Kong
McPherson's (UK) Limited	United Kingdom
A.C.N. 082 110 101 Pty Ltd	Australia

\* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to Note 34.

\*\* On 6 July 2015, the McPherson's Group acquired the remaining 17.79% of Home Appliances Pty Ltd. As such, Home Appliances Pty Limited and its subsidiaries form part of the McPherson's Group and have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information, refer to Note 34.

All investments represent 100% ownership interest unless otherwise stated.

### 33. RELATED PARTIES

#### Directors

Details relating to the insurance of Directors are included in the Directors' Report. Also, from 1 June 2016, A.M. Lacaze's remuneration fees are paid via a related party, Morgan Consulting Pty. Limited.

#### Controlled entities

Transactions between McPherson's Limited and its controlled entities in the Group during the year consisted of:

- Amounts advanced to and by McPherson's Limited
- Amounts repaid to McPherson's Limited
- Amounts borrowed by McPherson's Limited
- Payment and receipt of interest on certain advances at prevailing rates
- Payment of dividends to McPherson's Limited
- Purchase and sale of goods
- Receipt and payment of tax, rent, management and license fees

Refer to the Remuneration Report within the Directors' Report for information relating to key management personnel disclosures.

#### Transactions with other related parties

The following transactions occurred with other related parties:

	2016 \$	2015 \$
Sales of goods to joint venture	-	5,156
Recharge of administration services to joint venture	<b>3,912,003</b>	1,746,929
Interest charged to joint venture	<b>100,726</b>	188,893

In addition to the above the Group also pays for certain charges on behalf of the Housewares joint venture which are then recharged to the joint venture at the same value. These transactions are entered into by the Group on a back-to-back basis with the Housewares joint venture. During the year the Group paid \$730,996 (2015: \$758,412) that was then recharged to the Housewares joint venture at cost.

Housewares ceased to be a related party upon Groups divestment of the joint venture on 31 March 2016. Refer to Note 14.

#### Outstanding balances with related parties

The following balance is outstanding at balance date in relation to transactions with the Housewares joint venture:

	2016 \$	2015 \$
Receivable from Housewares joint venture	-	741,304

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 33. RELATED PARTIES (CONTINUED)

### Loans to related parties

	2016 \$	2015 \$
<b>Loans to Housewares joint venture</b>		
Beginning of the year	1,926,779	-
Loans advanced	1,214,221	1,926,779
Loans repaid	(3,141,000)	-
Interest charged	100,826	188,893
Interest received	(100,826)	(188,893)
End of year	-	1,926,779

### Terms and conditions

Sale of goods, administration recharges and interest charges are on an arm's length basis. Other transactions are transacted between the parties at cost. Receivable amounts outstanding, other than loans, are repayable in cash and are due to be settled within two months of balance date. Outstanding loans are unsecured and do not have a specified repayment date.

## 34. DEED OF CROSS GUARANTEE

McPherson's Limited, and the following controlled entities, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

- McPherson's Consumer Products Pty Ltd
- Multix Pty Ltd
- Domenica Pty Ltd
- Home Appliances Pty Ltd\*
- Electrical Distributors Australia Pty Ltd\*
- Electrical Distributors Repairs Servicing Pty Ltd\*
- Integrated Appliance Group Pty Ltd\*
- ARC Appliance Group Pty Ltd\*

\* On 6 July 2015, the McPherson's Limited Group acquired the remaining 17.79% of Home Appliances Pty Ltd and its subsidiaries. These entities form part of the Group's Deed of Cross Guarantee in financial year 2016.

By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a Financial Report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investment Commission.

### 34. DEED OF CROSS GUARANTEE (CONTINUED)

#### (a) Condensed consolidated income statement and a summary of movements in consolidated retained profits

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by McPherson's Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2016 of the Closed Group.

	2016 \$'000	2015 \$'000
<b>Income statement</b>		
Revenue	290,080	244,607
Other income	9,448	6,309
Expenses	(270,560)	(237,271)
Finance costs	(7,589)	(7,503)
Share of net profit of associates accounted for using the equity method	1,604	928
<b>Profit before income tax</b>	<b>22,983</b>	7,070
Income tax expense	(2,197)	(209)
<b>Profit for the year</b>	<b>20,786</b>	6,861
<b>Summary of movements in consolidated retained profits</b>		
Accumulated losses at beginning of the financial year	(80,477)	(76,765)
Acquisition	4,728	-
Profit after income tax for the year	20,786	6,861
Dividends provided for or paid	(7,807)	(10,573)
<b>Accumulated losses at the end of the financial year</b>	<b>(62,770)</b>	(80,477)

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 34. DEED OF CROSS GUARANTEE (CONTINUED)

### (b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2016 of the Closed Group.

	2016 \$'000	2015 \$'000
<b>Current assets</b>		
Cash and cash equivalents	13,018	6,215
Trade and other receivables	41,390	51,505
Inventories	56,109	36,259
Derivative financial instruments	-	1,333
Current tax assets	495	1,309
Assets classified as held for sale	-	37,674
<b>Total current assets</b>	<b>111,012</b>	134,295
<b>Non-current assets</b>		
Other financial assets	20,776	61,455
Property, plant and equipment	5,112	3,816
Intangible assets	112,424	52,057
Deferred tax assets	5,875	4,724
<b>Total non-current assets</b>	<b>144,187</b>	122,052
<b>Total assets</b>	<b>255,199</b>	256,347
<b>Current liabilities</b>		
Trade and other payables	56,539	50,651
Borrowings	17,503	403
Derivative financial instruments	3,207	1,122
Provisions	8,573	13,545
Liabilities directly associated with assets classified as held for sale	-	6,330
<b>Total current liabilities</b>	<b>85,822</b>	72,051
<b>Non-current liabilities</b>		
Payables	13,603	16,185
Borrowings	48,886	88,072
Derivative financial instruments	1,905	1,601
Provisions	860	615
Deferred tax liabilities	13,808	7,354
<b>Total non-current liabilities</b>	<b>79,062</b>	113,827
<b>Total liabilities</b>	<b>164,884</b>	185,878
<b>Net assets</b>	<b>90,315</b>	70,469
<b>Equity</b>		
Contributed equity	154,042	149,191
Reserves	(957)	1,755
Accumulated losses	(62,770)	(80,477)
<b>Total equity</b>	<b>90,315</b>	70,469

### 35. NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of net cash provided by operating activities to operating profit after income tax:

	2016 \$'000	2015 \$'000
<b>Profit after income tax</b>	<b>11,001</b>	8,840
Impairment of intangible assets	-	637
Depreciation	<b>2,204</b>	2,256
Amortisation of other intangibles	<b>599</b>	403
(Gain)/Loss on disposal of property, plant and equipment	<b>(20)</b>	279
Share-based payments	<b>39</b>	(36)
Share of profit of equity accounted for joint venture	<b>(1,825)</b>	(1,060)
Gain from disposal of joint venture	<b>(1,961)</b>	-
Contingent consideration adjustment	-	(2,036)
Interest rate swap termination loss during refinancing	-	1,969
Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets:		
(Decrease)/increase in payables	<b>(9,404)</b>	6,317
(Decrease)/increase in other provisions	<b>(280)</b>	1,893
(Decrease)/increase in employee entitlements	<b>(518)</b>	943
Increase/(decrease) in net tax liabilities	<b>448</b>	(1,095)
Decrease in receivables	<b>10,382</b>	5,899
Decrease/(increase) in inventories	<b>14,261</b>	(18,259)
<b>Net cash inflows from operating activities</b>	<b>24,926</b>	6,950

#### (b) Non-cash investing and financing activities

	2016 \$'000	2015 \$'000
Shares issued under Dividend Reinvestment Plan	<b>863</b>	2,194

### 36. EVENTS OCCURRING AFTER BALANCE DATE

Mr Paul Maguire, the Group's Managing Director, announced his retirement on 22 August 2016 with effect from the conclusion of the Annual General Meeting on 21 November 2016. Mr Maguire's successor has been appointed and will commence with the Group on 1 November, and after a transition period will be appointed Managing Director on 21 November 2016.

No other matter or circumstance, other than has been noted above, has arisen since 30 June 2016 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

# Notes to the Financial Statements (Continued)

YEAR ENDED 30 JUNE 2016

## 37. PARENT ENTITY FINANCIAL INFORMATION

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2016 \$'000	2015 \$'000
<b>Balance Sheet</b>		
Current assets	4,889	3,474
Total assets	191,881	283,400
Current liabilities	70,962	12,637
Total liabilities	134,110	115,233
<b>Shareholders' equity</b>		
Issued capital	154,042	149,191
Reserves – cash flow hedges	(2,369)	317
– share-based payments	1,412	1,373
Retained earnings – 2015 reserve	9,479	17,286
Accumulated losses – 2016 reserve	(104,793)	-
	57,771	168,167
<b>Loss for the period</b>	<b>(104,793)</b>	<b>(138)</b>
<b>Total comprehensive income</b>	<b>(107,479)</b>	<b>2,994</b>

As a result of a review of intercompany receivables, an impairment of an intercompany balance of \$112.3m has been recognised in the current financial year.

### (b) Contingent liabilities and guarantees

The parent entity has guaranteed the repayment of borrowings of certain controlled entities.

The cross guarantee given by those entities listed in Note 34 may give rise to liabilities in the parent entity if the subsidiaries do not meet their obligations under the terms of the overdrafts, loans, leases, or other liabilities subject to the guarantee.

# Shareholder Information

The shareholder information set out below was applicable as at 5 September 2016.

## 1. SHARE CAPITAL

As at 5 September 2016 the ordinary share capital in the Company was held by the following number of shareholders:

	Range	Total Shareholders
	1 - 1,000	1,486
	1,001 - 5,000	1,445
	5,001 - 10,000	759
	10,001 - 100,000	1,089
	100,001 and over	108
	<b>Total</b>	<b>4,887</b>

## 2. VOTING RIGHTS

Each ordinary share on issue entitles the holder to one vote. Performance Rights have no voting rights.

## 3. TWENTY LARGEST SHAREHOLDERS AS AT 5 SEPTEMBER 2016

	No. of Shares	%
1. JP Morgan Nominees Australia Limited	10,297,825	9.97
2. RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	8,905,000	8.62
3. HSBC Custody Nominees (Australia) Limited	8,160,970	7.90
4. Citicorp Nominees Pty Limited	5,257,266	5.09
5. B & R James Investments Pty Limited <JAMES SUPERANNUATION A/C>	1,600,000	1.55
6. BNP Paribas Noms Pty Ltd <DRP>	1,541,689	1.49
7. UBS Nominees Pty Ltd	1,525,645	1.48
8. P & M Maguire Super Pty Ltd <P & M MAGUIRE S/F A/C>	1,203,000	1.16
9. Mr Yaron Shamgar	1,200,000	1.16
10. Mr Paul John Maguire	1,000,000	0.97
11. Aust Executor Trustees Ltd <FLANNERY FOUNDATION>	932,932	0.90
12. Mr David Madden	925,000	0.90
13. Mr Peter John Stirling + Mrs Rosalind Verena Stirling	720,000	0.70
14. Mr Kenneth Joseph Hall <HALL PARK A/C>	710,451	0.69
15. Sandhurst Trustees Ltd <SISF A/C>	700,000	0.68
16. Mr John Gassner + Mr Nathan Rothchild	582,501	0.56
17. Shortis Natural Therapies Pty Limited <SHORTIS FAMILY A/C>	500,000	0.48
18. Stirling Superannuation Pty Ltd	450,000	0.44
19. WR & MA Beischer Super Pty Ltd <WR & MA BEISCHER S/F A/C>	445,000	0.43
20. Gatfield Pty Ltd <ROWELL S/F A/C>	395,481	0.38
	<b>47,052,760</b>	<b>45.54</b>
	<b>103,318,229</b>	<b>100.00</b>

## 4. SUBSTANTIAL SHAREHOLDERS

The names and shareholdings of substantial shareholders who have notified the Company in accordance with Section 671B of the *Corporations Act 2001* as at 5 September 2016.

	Number of Shares Held	% of Total Issued Shares
Investors Mutual Limited	9,620,364	10.24
Thistle Custodians Pty Ltd Group	6,227,976	6.03
Microequities Asset Management Pty Ltd	5,188,336	5.02

## 5. UNQUOTED EQUITY SECURITIES

	No. on Issue	No. of Holders
Performance Rights Plan	1,459,000	8

## 6. LISTING

McPherson's Limited is listed on the Australian Securities Exchange.

# Corporate Directory

## **MCPHERSON'S LIMITED**

**ACN: 004 068 419**

**ASX Code: MCP**

McPherson's Limited is a company limited by shares, incorporated and based in Australia. Its registered office and principal place of business is located at:

105 Vanessa Street  
Kingsgrove NSW 2208  
Telephone: (02) 9370 8000  
Facsimile: (02) 9370 8091  
Email: [enquiries@mcpher.com.au](mailto:enquiries@mcpher.com.au)  
Website: [www.mcphersons.com.au](http://www.mcphersons.com.au)

## **Auditors**

PricewaterhouseCoopers  
Darling Park Tower 2  
201 Sussex St  
Sydney NSW 2000

## **Solicitors**

Thomson Geer Lawyers  
Level 25,  
1 O'Connell Street  
Sydney NSW 2000

## **Share Registry**

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3067  
Telephone within Australia: 1300 85 05 05  
Telephone outside of Australia: +61 3 9415 5000  
Facsimile: (03) 9473 2500  
[www.computershare.com](http://www.computershare.com)  
[www.investorcentre.com/contactus](http://www.investorcentre.com/contactus)

## **Shareholder Enquiries**

Shareholders who wish to contact the Company on any matter related to their shareholding are invited to telephone or write to the Share Registry. It is important that shareholders notify the Share Registry in writing if there is a change to their registered address. For added protection, shareholders should always quote their Shareholder Reference Number (SRN).





MCPHERSON'S

[www.mcphersons.com.au](http://www.mcphersons.com.au)