2014

ANNUAL REPORT

McPHERSON'S

CONTENTS

04 Overview Performance

06 Chairman & Managing Director's Report

08 Review of Operations

14 Board of Directors

16 Category Overview

- **16** Health & Beauty
- **20** Housewares
- **24** Home Appliances
- **26** Household Consumables

28 Corporate Governance

33 Financial Report

96 Shareholder Information

98 Corporate Directory

DIVIDEND POLICY

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

FINANCIAL CALENDAR*

November 2014
Annual General Meeting

February 2015
Release of results to 31 December 2014

August 2015
Preliminary results to 30 June 2015

September 2015
Publication of Annual Report and accounts for year to 30 June 2015

*Subject to change

MANAGING CHANGE

McPherson's stated strategy is to substantially transform its business through acquisition/divestment, the establishment of new agency relationships and channel expansion; diversifying away from margin constrained channels and increasing participation in channels with greater profit potential

Our key achievements in FY2014:

- Successfully integrated a further four EPS accretive acquisitions delivering scale, synergies and diversification
- Upgraded systems and processes (IT and Continuous Improvement initiatives)
- Created available capacity for 2,000+ additional product lines at the Kingsgrove distribution centre
- Significantly rationalised underperforming product ranges; substantially reducing overheads and improving profitability
- Successfully implemented price increases across all channels
- Continued to develop and launch new innovative product ranges into profitable channels
- Attracted profitable new agency brands

$353.4 million

Sales revenue

Increased channel diversification achieved through acquisition

18.1%

Sales revenue increase

DIVERSE ACTION

Strong revenue and tight margins were only a part of the narrative for the past year. The pursuit of growth through new product development and innovation remains a major focus for the business and this is being complemented by the establishment of new agency agreements and growth through acquisition.

Consistent with our strategy of diversifying the Company's revenue base and increasing our participation in channels that generate more attractive margins, the 2013-2014 year was one of continued transformation of the Company.

The October 2013 acquisitions of the Dr LeWinn's and Revitanail brands in our Health & Beauty Division and Think Appliances in our Home Appliances Division, together with the March 2014 acquisition of the Lemair brand of refrigeration and washing machine appliances, contributed to improved profitability as indicated by the Company's second half performance, with underlying earnings before interest and tax increasing 21.3% on the previous year to $9.2 million.

Additionally the Company divested the Crown Glassware business in March 2014, thus exiting a less profitable channel.

Operational improvement has been facilitated by the upgrade of the Company's IT system in Australia to the latest version. Having recently completed the implementation of this upgraded system in our New Zealand operation, the Company is now in the process of implementing this system across the entire operation. A common IT platform will enable efficiencies through the centralisation of most finance, administration and supply chain functions.

Continued focus on working capital efficiency has led to further rationalisation and liquidation of marginally profitable product ranges, while price increases across the remainder of the portfolio have been made in response to cost inflation.

Group sales revenue in the 2013-2014 financial year at $353.4 million was 18.1% above the prior year's $299.2 million. This increase was primarily due to the second half effect of the Dr LeWinn's and Think Appliances acquisitions and the full year effect of the Home Appliances, Maseur and Footcare International acquisitions. Sales revenue from the continuing business on a like-for-like basis was in line with FY2013.

Pre-tax profit from continuing operations, excluding an $80.0 million impairment of intangibles and other non-recurring items, at $20.7 million was 10.9% above the prior year's $18.7 million.

The Company takes a prudent approach to the valuation of its intangible assets. During the year goodwill and brand names were impaired by $78.2 million and $1.8 million respectively. Other non-recurring items before tax were restructuring costs of $1.5 million and acquisition and transition costs of $1.1 million.

Earnings per share excluding non-recurring items of 15.9 cents was achieved in 2013-14 compared with 16.9 cents the previous year, representing a 5.9% decrease. Consistent with the Company's policy of distributing at least 60% of net profit to shareholders, dividends representing 69% of net profit excluding non-recurring items were declared for 2013-2014, comprising an interim dividend of 6 cents and a final dividend of 5 cents, both fully franked. All future dividends are expected to remain fully franked.

Debt levels increased from $69.6 million at 1 July 2013 to $74.7 million at 30 June 2014. The gearing ratio (net debt / (net debt plus shareholders' equity)) increased from 29.2% at 30 June 2013 to 44.1% at 30 June 2014, largely due to the $79.5 million after-tax impairment of intangible assets in the first half. Net borrowing costs at $6.6 million were consistent with the prior year.

The transformation of the Company has continued in 2014-2015. Firstly, from August 2014 the Company has been appointed Australian distributor for Proctor & Gamble's fine fragrance

brands – Gucci, Dolce & Gabbana and Hugo Boss. Secondly, the Company has been appointed exclusive Australian distributor of Trilogy natural skincare products. Collectively these two new agencies will contribute additional revenue of approximately $35 million per annum to our Health & Beauty division.

Thirdly, the Company is in the process of acquiring rights to the A'kin natural skin care and Al'chemy natural hair care brands. Together with our new agencies, these new product ranges will increase our sales to the pharmacy and department store channels, where margins are less constrained, and enable us to capitalise on distribution synergies.

Lastly, the Company has signed a Heads of Agreement with the Fackelmann Group which proposes the transfer of our existing housewares business to a new venture in which the Fackelmann Group will acquire a majority stake. Once established, the new venture will market and distribute our combined ranges of housewares products. There are considerable synergies expected from the Fackelmann Group's investment in the new venture and we look forward to finalising arrangements and working with the Fackelmann Group to re-establish the earnings contribution from the housewares channel, where the return on investment has been low. This new venture is intended to be established by 1 November 2014.

In addition to channel diversification and growth in the more profitable Health & Beauty and Home Appliance segments, the impact of USD/AUD cross rate volatility on the Company's earnings has been reduced as the proportion of product purchases denominated in US dollars has reduced from 83% in 2012-2013 to an estimated 65% in 2014-2015.

The Company will continue to transform in 2014-2015 as it seeks to divert capital from margin constrained operations to synergistic acquisitions and new agency partnerships.

Reflecting stability in the Company's governance and management structure throughout a year of transformation, there were no changes in the Company's board or senior management during 2013-14.

As a key element of our strategy, the continued development and launch of new and innovative products in profitable channels will be pursued with vigour. The Company is well positioned to capitalise on the significant transformation it has undergone over the last three years and plans to undertake in 2014-2015. The Board remains committed to pursuing all avenues of growth that will improve shareholder returns.

David Allman
Chairman

Paul Maguire
Managing Director

TRANSFORMATION
is a long term process

ADAPTING TO CHANGE

A program of transformation, through strategic acquisitions and divestments, as well as product innovation, has established a portfolio of trusted and profitable brands. It's all part of McPherson's mission to be a world-class consumer products company.

OUR BUSINESS

McPherson's Limited designs, sources and markets products under five broad categories: **Health & Beauty**, with brands including Manicare, Lady Jayne, Swisspers, Revitanail and Dr LeWinn's; **Home Appliances**, with brands including Euromaid, Baumatic, D'Amani, Lemair and Venini; **Housewares**, with brands including Wiltshire, Stanley Rogers and Füri; **Household Consumables** under the Multix brand; and **Impulse Merchandising** under the Home Living brand.

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 and through agents in North America and South Africa.

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.

ACQUISITIONS DURING THE YEAR

Home Appliances

On 29 October 2013, McPherson's acquired the assets of the Think Appliances business. Think Appliances is the owner and distributor of the Baumatic, Venini and D'Amani brands in the retail, plumbing and commercial homebuilder markets. This strategic acquisition provided further channel diversification and increased the Home Appliances division's product range.

On 28 March 2014, McPherson's acquired the Lemair brand which specialises in refrigeration and washing machine appliances. The acquisition of Lemair broadens the division's product range.

Health & Beauty

On 1 July 2013, McPherson's acquired the Maseur brand to complement Footcare International. Distribution of Maseur's leading anatomically designed sandals is primarily through the Australian pharmacy channel.

On 31 October 2013, McPherson's made the acquisition of the cosmetic skincare brand, Dr LeWinn's, and beauty treatment brand Revitanail. The acquisition of these leading brands strengthened McPherson's Health & Beauty product range and increased channel diversification.

McPherson's is currently in the process of acquiring the A'kin and Lapurete natural skin care and Al'chemy natural hair care brands. The addition of these natural botanical products together with the Trilogy agency's range of natural skincare products will further diversify McPherson's channel exposure.

NEW AGENCIES ESTABLISHED DURING THE YEAR

On 14 May 2014, McPherson's was appointed exclusive distributor for the Trilogy range of natural skincare products, effective 1 July 2014. Trilogy is a recognised brand in the Australian pharmacy channel and this appointment strengthened McPherson's market position in Health & Beauty.

Subsequent to year end, effective 1 August 2014, McPherson's was appointed Australian distributor for Proctor & Gamble's fine fragrance brands — Gucci, Dolce&Gabbana and Hugo Boss — excluding duty free stores.

DIVESTMENT DURING THE YEAR

On 31 March 2014, McPherson's divested its Crown glassware business. This marked McPherson's exit from the lower margin foodservice channel and was in line with the Company's commitment to diversify away from less profitable channels.

"During the past year the company has improved its systems and processes."

Subsequent to year end, on 18 August 2014, McPherson's signed a Heads of Agreement with the Fackelmann Group which proposes the transfer of McPherson's existing housewares business to a new venture in which the Fackelmann Group will acquire a majority stake. Once established, the new venture will market and distribute our combined ranges of housewares products. There are considerable synergies expected from the Fackelmann Group's investment in the new venture which will re-establish the earnings contribution from the housewares channel, where the return on investment has been low. This new venture is intended to be established by 1 November 2014.

Founded in Germany in 1948, the Fackelmann Group is a global manufacturer and distributor of kitchen, baking, home, leisure and bathroom products with annual sales of more than AUD470 million.

RESULTS FOR THE YEAR[1]*

McPherson's sales revenue was $353.4 million net of customer allowances, 18.1% above the previous year's $299.2 million. This increase was primarily due to the second half effect of the Dr LeWinn's and Think Appliances acquisitions and the full year effect of the Home Appliances, Maseur and Footcare International acquisitions. Sales revenue from continuing businesses on a like-for-like basis was in line with FY2013.

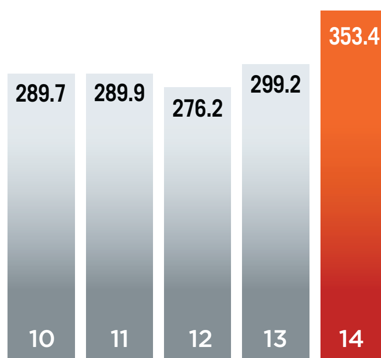
1 *FY2013 figures have been restated to reflect early adoption of AASB 9 Financial Instruments.

EBIT (earnings before interest and tax), excluding the non-cash impairment of intangibles, and non-recurring items, was $27.3 million, 8.2% above FY2013 ($25.2 million). Excluding non-recurring items and impairment of intangibles, profit before tax was $20.7 million, 10.9% above FY2013. Non-recurring items before tax in FY2014 included restructuring costs of $1.5 million, and acquisition and transition costs of $1.1 million. Underlying profit after tax, excluding the non-cash impairment of intangibles and non-recurring items was $14.7 million, 12.8% above FY2013.

Underlying earnings per share, excluding the non-cash impairment of intangibles and non-recurring items, declined 5.9% from 16.9 cents per share to 15.9 cents per share due to the issuance of new equity to fund acquisitions.

SALES FROM CONTINUING OPERATIONS*

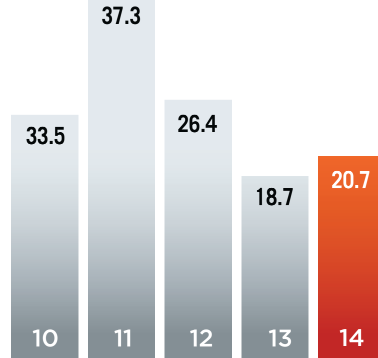
($m)



* Sales are Net of Customer Allowances.

PROFIT FROM CONTINUING OPERATIONS*

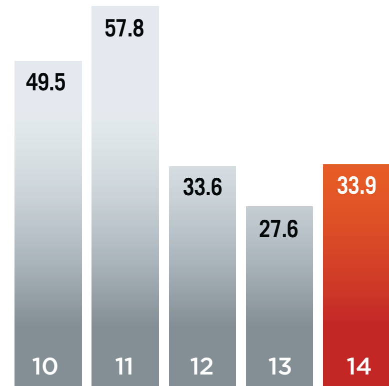
($m)



* Operating profit before tax from continuing operations and excluding non-recurring items.

OPERATING CASH FLOW*

($m)



* Operating cash flow before interest and tax.

On 31 December 2013, after assessing the value of its intangible assets using a discounted cash flow approach, the Group expensed an $80.0m non-cash impairment of its intangible assets.

Inclusive of the aforementioned non-recurring items, McPherson's reported a statutory loss after tax of $66.6 million, compared with a loss after tax of $33.3 million in FY2013.

Operating cashflow before interest and tax was $34.0 million, 23.2% above FY2013, and represents cash conversion of 112% of underlying EBITDA. Net working capital decreased by $1.2 million, with the increase in inventories more than offset by an increase in trade payables.

Net debt increased from $69.6 million at 1 July 2013 to $74.7 million at 30 June 2014. The Company's gearing ratio (net debt/total funds employed, including the $79.5 million after-tax impairment of intangible assets in the first half) was 44.1% compared with 29.3% at 30 June 2013. The net cash inflow of $5.1 million in FY2014 included payments totalling $23.7 million for the acquisitions made during the year.

Directors declared a total dividend of 11 cents per share fully franked for the full year. This represented a payout ratio for the year ended 30 June 2014 of 69% of underlying earnings per share from continuing operations, excluding non-cash impairment of intangibles and non-recurring items.

Earnings in FY2014 benefited from the acquisitions of Dr LeWinn's, Revitanail and Think Appliances and improved operational efficiencies. While gross margins declined during FY2014 primarily as a result of the depreciation in the Australian dollar, the Group has undertaken a price increase exercise across all product ranges, which will lead to higher margins in FY2015.

The Company continues to operate a comprehensive foreign exchange hedging program, which mitigates the impact of Australian dollar and US dollar movements. Estimated US dollar requirements are hedged eight months forward on a rolling basis, using options, forward exchange contracts and collars. In FY2015 the company's exposure to the US dollar is expected to reduce as a result of the increase in Australian sourced Health and Beauty product.

While total expenses, excluding product costs, borrowing costs and non-cash impairment costs, increased by $11.3 million or 10.0%, the change in product mix, improved operational processes and increased revenue resulted in the percentage of expenses to sales ratio reducing from 37.5% of sales in FY2013 to 35.0% of sales in FY2014.

During the past year the company has improved its systems and processes. The IT system in Australia was upgraded to the latest version and will be rolled out across the Group in FY2015. The Company has created capacity for over 2,000 additional product lines in its Kingsgrove distribution centre, has rationalised underperforming product ranges, discontinuing unprofitable lines and improving overall profitability, and implemented price increases across our ranges in response to cost inflation.

AUSTRALIA

McPherson's Australian operation's sales revenue was $308.1 million, an increase of 18.7% over FY2013 ($259.5 million). As noted above, this increase was primarily due to new acquisitions.

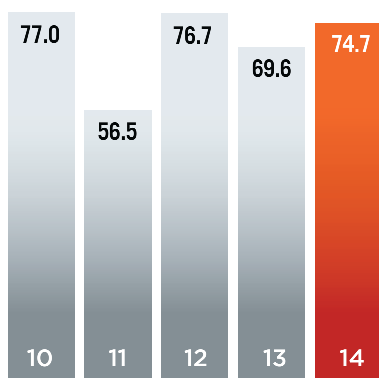
The acquisitions of Dr LeWinn's and Revitanail generated a return on funds employed exceeding 20 per cent per annum, well above the Group's cost of capital. The Footcare International, Cosmex, Moosehead, and DaVinci brands continued to generate profitable, incremental sales. Lady Jayne, Manicare and Swisspers brand sales were approximately in line with the previous year.

A 30% reduction in the Housewares product range, including the divestment of the underperforming Crown glassware business, resulted in a decline in revenue from Housewares. Margins were also impacted by clearance activity associated with range reduction and the depreciation of the AUD/USD exchange rate.

The Multix brand continued to maintain market leadership in Australia, resulting in FY2014 revenue that was in line with prior year. Margins were also impacted by the depreciation of the AUD/USD exchange rate.

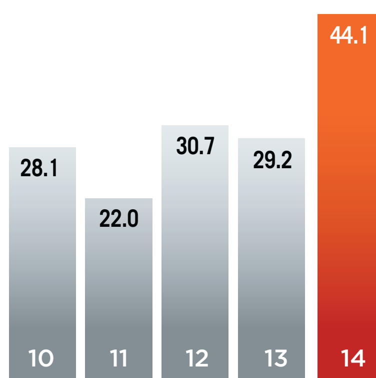
NET DEBT

($m)



GEARING*

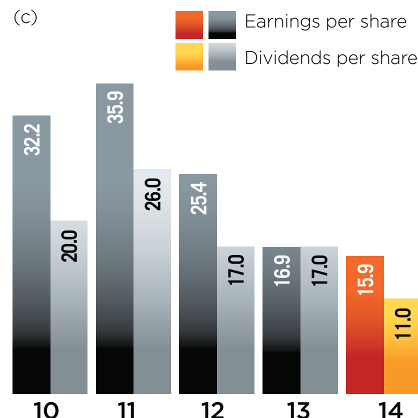
(%)



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

EARNINGS* AND DIVIDENDS PER SHARE

(c)



* EPS is for continuing operations only and excludes non-recurring items.

The Group's newest sales category, Home Appliances achieved significant growth during FY2014 and benefited further from the acquisitions of Think Appliances and Lemair. Home Appliances diversifies McPherson's customer channel exposure and provides an opportunity for the Group to expand into higher margin products.

NEW ZEALAND

McPherson's New Zealand operation experienced a 10% increase in sales as a result of the weaker Australian dollar exchange rate; however, in New Zealand dollar terms this equated to a 1.7% decline from $NZ37.6 million ($30.5 million) in FY2013 to $NZ36.9 million ($33.5 million).

The Company continues to occupy a substantial share of the New Zealand housewares market through key brands including Wiltshire, Stanley Rogers and a range of popular agency lines.

The company is in the process of outsourcing its logistics function in New Zealand with the objective of improving productivity and profitability.

ASIA

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

NORTH AMERICA

McPherson's operates in Canada and the United States through an exclusive agency agreement with a leading distributor of housewares products. The business mainly markets products under the Wiltshire brand.

SOUTH AFRICA

An exclusive agency agreement operates for the supply of McPherson's housewares products to South Africa and other southern African nations, using McPherson's owned brands.

ASSETS AND LIABILITIES HELD FOR SALE

In its FY2014 Financial Statements, McPherson's has classified the assets and liabilities of the Housewares and Household Consumables divisions as assets and liabilities held for sale.

The terms of the Heads of Agreement with the Fackelmann Group provide a Put Option for McPherson's to divest the remaining 49% of the new housewares venture after one, two or three years for a consideration comprising the sum of net asset value and a multiple of future earnings. Additionally, the Fackelmann Group has a corresponding Call Option on similar terms. The parties are not bound to exercise these options.

CORPORATE STRATEGY

McPherson's mission is to be a world-class consumer products company. The Group's corporate strategy focuses on two key areas: 1) Growth and 2) Operational Excellence.

Our Growth Strategies can be summarised as follows:

- **Innovation:** innovating our major brands in both existing and new categories;
- **Agencies / licences:** new agency partners chosen to strengthen ranging;
- **Acquisitions:** targeting businesses with well regarded brands, growth potential, and scope to leverage the Company's infrastructure;
- **International expansion:** a platform for growing profit and brand equity; and
- **Sourcing services:** provided to other companies through using the Company's sourcing capability, product development and quality assurance.

> The Group's newest sales category, Home Appliances achieved significant growth during FY2014.

Our Operational Excellence Strategies can be summarised as follows:

- **Improved productivity and efficiency through:**
  - Significant enhancement of IT systems to automate processes; and
  - Substantial process improvement.
- **A strong company culture with highly engaged employees through:**
  - Training and development of high achievers; and
  - Establishment of a culture of continuous improvement.

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

- **Consumers:** through easy-to-use, functional, branded products, available everywhere;
- **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.

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

GROUP FINANCIAL SUMMERY

	NOTE		2014	2013 [7]	2012	2011	2010
Sales - continuing operations	1,2	**$000's**	**353,386**	299,189	276,246	289,934	289,737
Operating profit before tax - continuing operations	1,3	**$000's**	**20,690**	18,655	26,423	37,260	33,478
Income tax expense - continuing operations	1,3	**$000's**	**(5,956)**	(5,598)	(7,758)	(11,100)	(10,250)
Operating profit after tax - continuing operations	1,3	**$000's**	**14,734**	13,057	18,665	26,160	23,228
Statutory profit after tax		**$000's**	**(66,557)**	(33,319)	17,028	19,499	25,649
Operating cash flow	4	**$000's**	**33,941**	27,553	33,575	57,815	49,473
Shareholders' funds	5	**$000's**	**94,544**	169,092	172,941	200,798	196,898
Return on average shareholders' funds	1,6	**%**	**11.2**	7.6	10.0	13.2	13.2
Earnings per share - continuing operations (EPS)	1,3	**Cents**	**15.9**	16.9	25.4	35.9	32.2
Statutory earnings per share (EPS)		**Cents**	**(71.9)**	(43.2)	23.5	27.1	36.4
Dividends per share (fully franked)		**Cents**	**11.0**	17.0	17.0	26.0	20.0
Net debt		**$000's**	**74,700**	69,589	76,666	56,544	77,021
Gearing (net debt / (net debt + shareholders' funds))		**%**	**44.1**	29.2	30.7	22.0	28.1

Note 1: From continuing operations (excludes results from the Group's former Printing business).
Note 2: Sales are net of customer allowances.
Note 3: Excludes non-recurring items.
Note 4: Operating cash flow before interest and tax.
Note 5: Shareholders' funds at the end of the financial year.
Note 6: Calculated using operating profit after tax from continuing operations and excluding non-recurring items.
Note 7: The 2013 balances have been restated to reflect the Group's early adoption of AASB 9 Financial Instruments.

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.

DAVID J. ALLMAN B.Sc

Non-Executive Director and Chairman of the Board

Experience and expertise

Mr Allman was appointed Chairman of McPherson's Limited on 18 November 2011.

Mr Allman retired as Managing Director of McPherson's Limited on 1 November 2009 and was appointed a Non-Executive Director of the Company on the same date. Mr Allman was appointed Chief Executive of McPherson's Limited in December 1994 and became Managing Director in March 1995.

Prior to joining McPherson's Limited Mr Allman was Managing Director of Cascade Group Limited, a position he held for seven years. Before this he held senior positions with Elders IXL Limited and Castlemaine Tooheys Limited. Mr Allman holds a degree in engineering and prior to obtaining general management positions held managerial roles in production management, finance and marketing.

Special responsibilities: Chairman of the Board

Member of the Audit Risk Management and Compliance Committee.

Member of the Nomination and Remuneration Committee.

Other current Directorships: Non-Executive Director and Chairman of Gale Pacific Limited.

Non-Executive Director and Chairman of Muir Engineering Group Pty Ltd.

Former Directorships in last three years: Director of Lomb Scientific Pty Ltd.

Interests in shares, options and performance rights: 593,096 ordinary shares held in McPherson's Limited. No options or 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 Masters 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, options and performance rights: 1,250,343 ordinary shares in McPherson's Limited; 375,000 options over ordinary shares in McPherson's Limited; and 192,000 performance rights over ordinary shares of McPherson's Limited.

GRAHAM A. CUBBIN B.Econ. (Hons)

Non-Executive Director

Expertise and experience

Mr Cubbin was appointed a Non-Executive Director of McPherson's Limited on 28 September 2010.

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: Member and Chairman of the Audit Risk Management and Compliance Committee.

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.

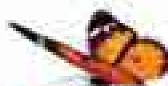
Former Directorships in last three years: None.

Interests in shares, options and performance rights: 10,000 ordinary shares in McPherson's Limited. No options or performance rights held.

MEETINGS OF DIRECTORS

The number of Board, Audit Risk Management and Compliance, and Nomination and Remuneration Committee meetings held during the year ended 30 June 2014, and the number of meetings attended during that period by each Director, are set out below:

	BOARD MEETINGS		AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE MEETINGS		NOMINATION AND REMUNERATION COMMITTEE MEETINGS	
DIRECTOR	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
David J. Allman	10	10	4	4	3	3
Paul J. Maguire	10	10	n/a	n/a	n/a	n/a
Graham A. Cubbin	10	10	4	4	3	3
John P. Clifford	10	9	n/a	n/a	3	3
Amanda M. Lacaze	10	10	4	4	n/a	n/a



JOHN P. CLIFFORD M.Eng & Man
Non-Executive Director

Expertise and experience

Mr Clifford was appointed a Non-Executive Director of McPherson's Limited in 2003.

Mr Clifford has an extensive background in private equity and venture capital in the United Kingdom, South East Asia and Australia, working for 3i and Rothschild.

Special responsibilities: Member and Chairman of the Nomination and Remuneration Committee.

Other current Directorships: Non Executive Director and Chairman of Gentrack Group Ltd.

Non Executive Director and Chairman of Greensense Pty Ltd.

Non Executive Director and Chairman of Metropolis Metering Services Pty Ltd.

Former Directorships in last three years: Silk Group Holdings Pty Ltd, Landis + Gyr Group AG (Executive Director) and Energy Response Holdings Pty Ltd.

Interests in shares, options and performance rights: None.

AMANDA M. LACAZE B.A
Non-Executive Director

Expertise and experience

Ms Lacaze was appointed a 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 & MD of Lynas Corporation Ltd. Previously she has been CEO & MD of Commander Communications, Executive Chairman of Orion Telecommunications, and CEO of AOL7. 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 options: 18,642 ordinary shares in McPherson's Limited.

COMPANY SECRETARIES

PHILIP R. BENNETT, B.Com, CA
Joint Company Secretary

Expertise and experience

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

Expertise and experience

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.

IT'S A BEAUTIFUL THING

The past year for health & beauty has been full of innovation, glamorous product launches, awards, media coverage and exciting partnerships. It's been a beautiful year!

The wait is UP!

Multiple award winning Revitanail commands the number one selling SKU in the hand and nail category.* Revitanail Nail Strengthener helps consumers achieve healthy, nourished nails. With years of expertise, the launch of innovative products "Instant Dry Drops" and "Whitening Glow" have been exciting additions to our range.

*Australian Pharmacy Aztec Scan Data MAT 31.03.14

No such thing as a bad hair day

Through constant innovation, Lady Jayne continues to be recognised as the number one hair accessories brand in Pharmacy.* Lady Jayne offers stylish, affordable and on trend accessories to loyal consumers. With over 130,000 social media followers, our fan base crave inspiration on how to achieve a good hair day everyday. Working with celebrity hair stylist Max May, Lady Jayne helps our consumers achieve the latest salon styles at home. Launching the Tangleze will contribute to our continually evolving funnel of innovation.

*Australian Pharmacy Aztec Scan Data MAT 31.03.14

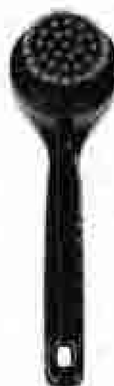
Grounds for celebration

The Health and Beauty team enticed key beauty media from best selling magazines such as Cleo, Marie Claire, Shop Til you Drop and The Sunday Telegraph to a picturesque event at the grounds of Alexandria. Attendees were able to shop the McPherson's Health and Beauty party offerings and engage in the launches for this season. With immediate success of over 600 engaged followers and posts and mentions in The Sunday Telegraph the overall event was a great success with a promising structure for future events.

Glamorous style

The number 1 lash brand in pharmacies* has had a fabulous year of glamorous launches. Partnering with iconic brand Swarovski Crystal – Glam has launched a limited edition Swarovski Crystal lash range bringing added sparkle to party season.

Glam helps complete any outfit with their new limited edition Almond Nail Range. Almond nails have been spotted on international celebrities like Rihanna, Lady Gaga and Beyonce. Helping the consumer achieve these fashion looks, Glam always provides affordable fashion solutions.



*Australian Pharmacy Aztec Scan Data MAT 31.03.14

Trusted beauty favourites

Boasting 40 years of beauty tools expertise, the number one beauty accessories brand* Manicare celebrates a successful year of growth, beauty blogger campaigns, successful reviews from Beauty Heaven consumer trial teams and a 64,000 fan base on social media. Hydranail won both the "Readers Choice" and "Judges Award" in the Australian Beauty Awards in the nail care treatment category.

*Australian Pharmacy Aztec Scan Data MAT 31.03.14

High Achiever

Capitalising on the international trend toward facial cleansing tools, Manicare launched a high quality facial cleansing and exfoliating brush. Not only did it over deliver on launch expectations it also achieved an impressive rating of 4 out of 5 stars in a Beauty Heaven trial team test.

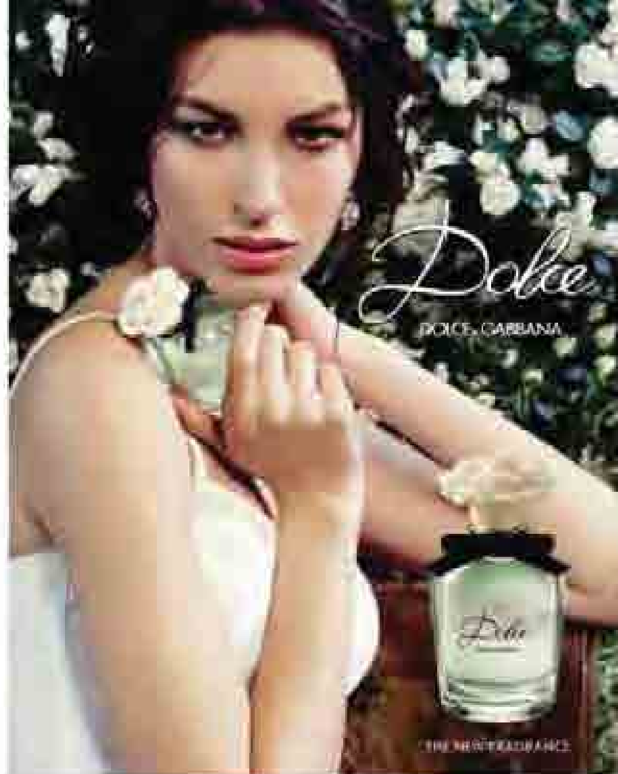
Summer Essentials

The successful launch of the Manicare Scented Nail Polish Remover Pads has delivered incremental sales since its arrival earlier this year. A highly consumable product driving additional traffic to the Manicare stand – this favourite has now earned its place amongst the core range.

Trend alert

Keeping ahead of trends, our trusted brands Manicare, Lady Jayne and Glam partnered with illustrious Australian Fashion Designer Alice McCall to participate in her fashion shows.

"I grew up using **Manicare** and **Lady Jayne** products and still use them to this day so I was thrilled to be able to incorporate them into the beauty looks for the show." - ALICE McCALL



La Dolce Vita!

McPherson's has been appointed Australian distributor for Proctor & Gamble's fine fragrance brands — Gucci, Dolce&Gabbana and Hugo Boss — excluding duty free stores.

Fashionably nailed

Renowned fashion designer known for his quirky and vibrant style Henry Holland has teamed up with Elegant Touch to launch a range of "House of Holland Nails." Using individual flair and elegance, Elegant Touch has drawn inspiration from the emerging almond nail trend and created a range of Pop culture nails taking the runway by storm.

New look

Leading international lash brand Eylure - worn by celebrities such as Audrey Hepburn and Katy Perry celebrates 65 years of success with a new look and a tribute to their heritage. With 80% market share in the UK and Europe, Eylure has established a colour coding system to make selecting the right lash for consumers easier.

Demon Dust

Innovation in pack format and styling has enhanced the launch of Demon Dust styling powder. MooseHead continues to engage with an MTV partnership. MooseHead also proudly collaborated with the Anchorman 2 release.

Quality you can rely on

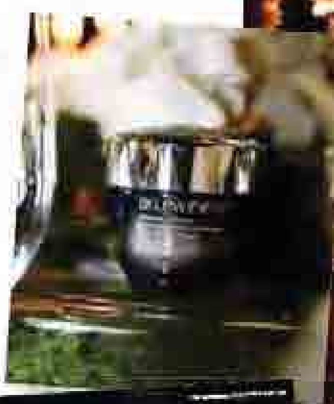
Swisspers takes quality seriously – boasting exceptional consumer trial results on Beauty Heaven *96% of respondents rated Swisspers as softer and better quality and *85% of respondents preferred Swisspers.

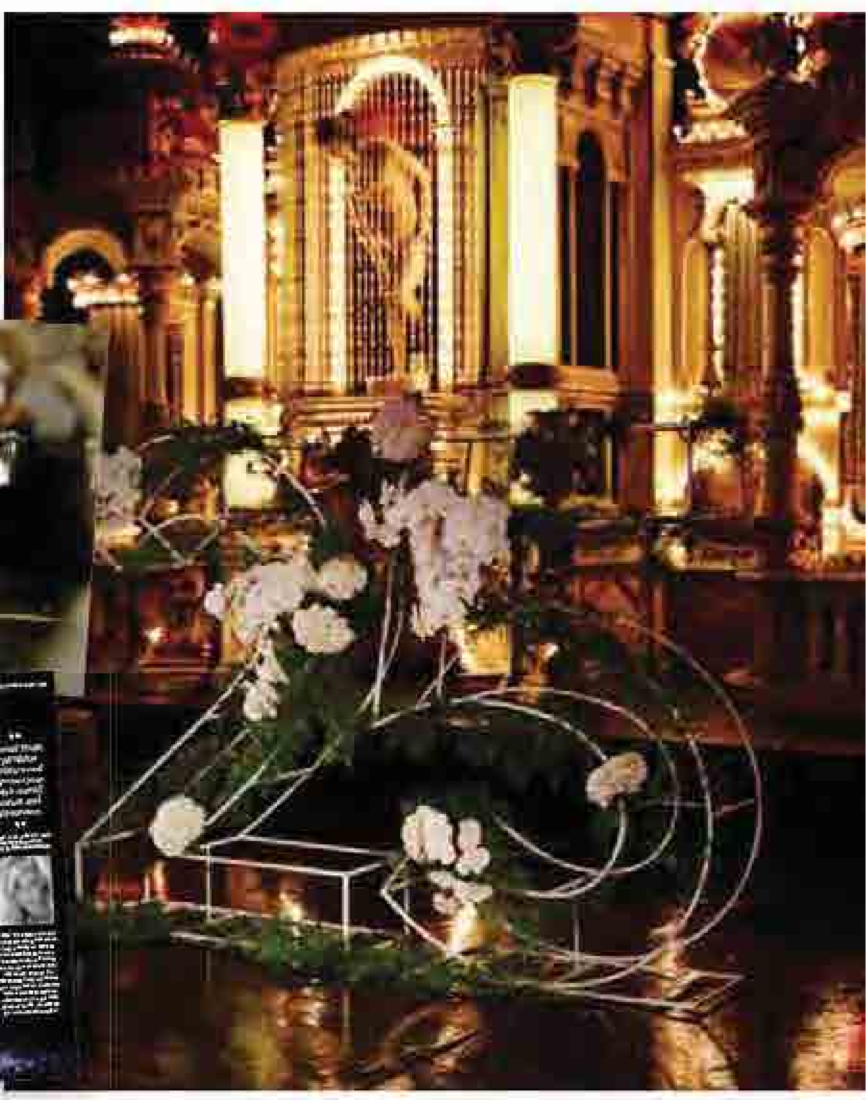
Forever young

Dr.LeWinn's celebrates 25 years of leading innovation in 2014. The acquisition of leading skincare brand Dr.LeWinn's brought with it an exciting array of activity. Marking this impressive milestone, key media from leading beauty and trade magazines were invited to attend an exquisite and intimate event at Carriage Works where memories of their childhood were evoked.

To compliment this, editors were invited to be part of the first to try the revolutionary Eternal Youth Day and Night Cream – a powerful anti-aging cream containing Juvefoxo. Juvefoxo is an ingredient proven to help minimise the signs of ageing by ten years and draws inspiration from a jellyfish which continually rejuvenates its skin cells and effectively lives forever.

A year of celebration – Dr.LeWinn's has invested in media campaigns to announce our leading edge innovations and rebuild the brand amongst consumers.





Frozen phenomenon

Taking the world by storm Disney's Frozen has won two Academy awards and currently holds the title of the highest grossing animated film Australia has seen.

Walk a day in our shoes

Leveraging the health credentials of the Maseur brand, Footcare has been rebranded Footcare by Maseur.

KITCHEN RULES

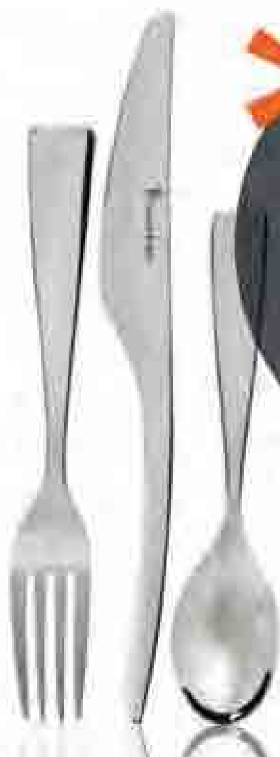
Housewares is fighting back in a challenging market through a focussed approach on SKU rationalisation, inventory management and the reinvigoration of key brands with new product development, custom designs, partnerships with brand ambassadors and strengthening its on-line presence.

Stanley on-line

During the year McPherson's launched the stylish, new Stanley Rogers website. It captures the classic and timeless essence of Stanley Rogers, while showcasing the Kitchen sub brand.

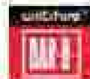
The site clearly showcases products across a number of categories and helps consumers to find where they can purchase Stanley Rogers products.

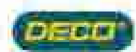
Now quality stainless steel craftsmanship is available 24/7.



Steel appeal

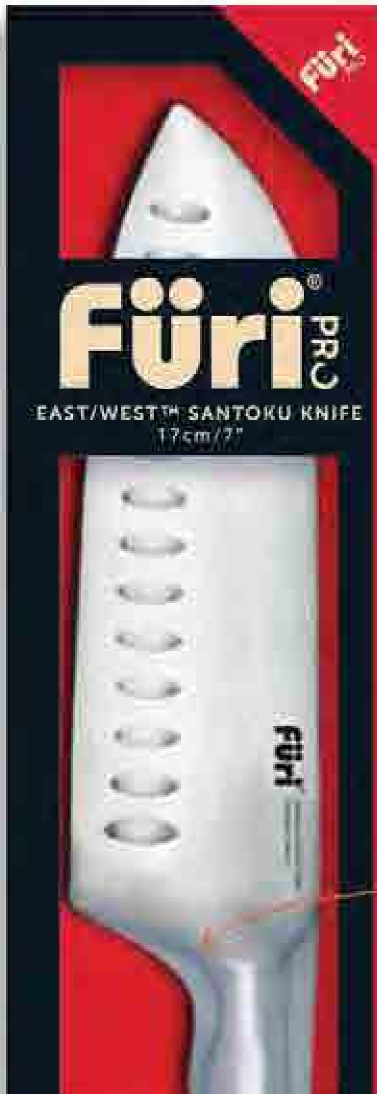
Stanley Rogers has created four new stunning cutlery patterns - Soho, Chelsea, Portobello and Picadilly. Made from premium 18/10 stainless steel, they are sold in a regal reusable canteen-style gift box.





The art of baking

Creative bakers will enjoy the new extensions in the Wiltshire Art of Baking collection. Items released in Woolworths and Big W, include customised message cookie stamps, a cake leveller for layered cakes, decorating turntable, dual icing bags and a batter dispenser.



Cutting edge

McPherson's relaunched the Furi brand of knives and Australian designed knife blocks (designed by McPherson's in-house industrial designer).

With stunning, new packaging and renewed focus on quality assurance, we are excited about taking the Furi brand to new heights.

New packaging

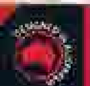
Furi ambassadors

To support the Furi relaunch in Australia and North America, we have three brand ambassadors to help promote the brand.

Kylie Kwong: Icon and one of Australia's most loved Australian-Chinese chefs. Kylie will drive the consumer connection with the Furi brand.

Trisha Yearwood: American best selling cookbook author and host of the top ranking TV show on the Food Network, Trisha Yearwood will represent Furi in North America.

Mark Henry: Original inventor of Furi, Mark is brand ambassador and partner for innovation development.



Chop chop!

Wiltshire launched a range of wooden chopping boards with an attractive red trim.

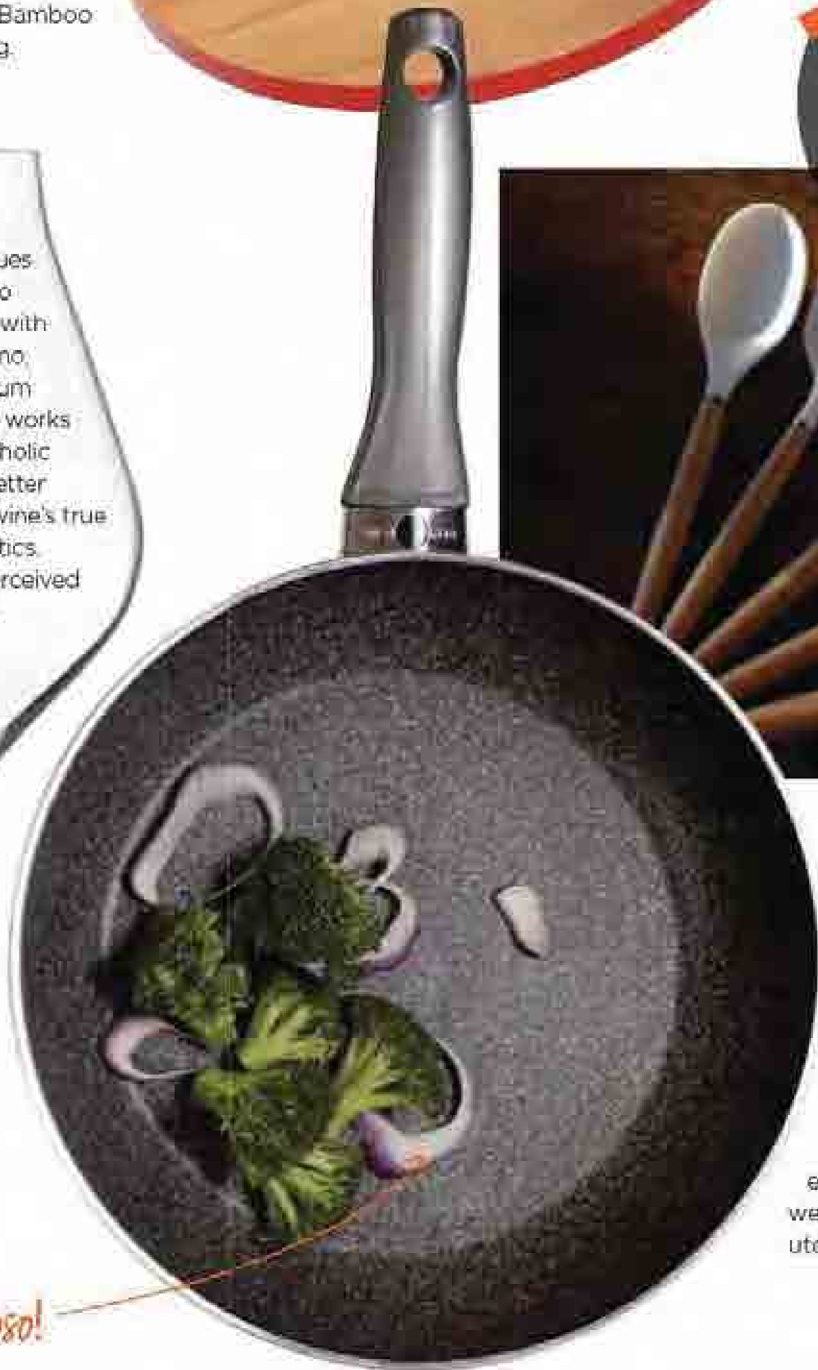
Designed in-house, this range is made from Acacia wood and Bamboo suitable for serving.

Provincial

Eco-friendly bamboo is paired with white silicone for the stylish new provincial utensil range of 31 SKUs now launching in Target.

Supremo

Luigi Bormioli continues to bring innovation to the glassware world with the launch of Supremo. Designed for maximum enjoyment of wine it works by reducing the alcoholic aroma to enable a better appreciation of the wine's true aromatic characteristics. The effect can be perceived just 10 minutes after pouring.



Delizioso!

Bringing Italian style to Australia

Ballarini's new Matera Granitium range combines style and functionality. With a non stick coating which includes mineral particles for exceptional scratch, cut and wear resistance, its even metal utensil safe.

Italian cooking

Ballarini Cookware was officially launched to the trade at the Home & Giving Fair, Melbourne. For the launch, Ballarini's International Sales Director, Vittorio Marangoni attended the fair to meet with customers and officially introduce the brand to the Australian market.

Social behaviour

The new Wiltshire website launched this year, capable across multiple platforms. The new site shares all of your favourite Wiltshire products, recipes, useful tips and blogs.

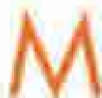
Wiltshire also has gone social! Communicating with our consumers is important and Wiltshire now has a strong presence on Facebook, Instagram and Pinterest. Facebook has over 9,000 fans and a highly engaged fan base.

Wiltshire ambassador

Wiltshire has teamed up with new brand ambassador, Anneka Manning, the powerhouse behind BakeClub. With her confident, no-nonsense approach to baking and her infectious, warm personality, Anneka brings all the right ingredients to the iconic Wiltshire products and embodies the brand's personality – someone energetic, dependable, connected, knowing and laid back. She also brings a huge following on social media.

Sharp and colourful

McPherson's have reinvigorated the iconic Wiltshire Staysharp with a dynamic new colour range. These fun and funky colours help an old favourite to look sharp and contemporary.



HOME ON THE RANGE

Strategic acquisitions and the launch of several stylish ranges have helped to cement Home Appliances' reputation as one of Australia's leading supplier of quality and affordable appliances.

A full suite

The Group's Home Appliances business comprises many brands with a strong industry history such as Lemair that reaches back to the 1950's.

We are Australia's;

- Third largest supplier of kitchen appliances
- Second largest supplier of freestanding cookers.

We offer;

- A full suite of Cooking and Laundry appliances with a solution for every price and specification requirement.
- Exceptional after sales service.

Acquisitions

28 October 2013 – Think Appliances business – the owner and distributor of the Baumatic, Venini and D'Amani brands.

28 March 2014 – the Lemair brand which specialises in refrigeration and washing machine appliances.

Elica Rangehoods

Home Appliances is proud to distribute Elica rangehoods – the first premium line of air extraction products to integrate design, lighting and air purification.

We were thrilled to see the many new releases from Elica at the international kitchen expo EuroCucina including the stunning Seashell (pictured). Just beautiful in the simplicity of its refined curves, featuring diffuse lighting and available in white, black and polished stainless steel.

Home Appliances will launch a new Elica website to coincide with the launch of new products and a new aesthetic for Elica.

Euromaid IAG elica ARC Baumatic VENINI D'AMANI Lemair

European style

Euromaid Black Pearl Series

The Euromaid Black Pearl Series of built in ovens will be launched in FY 2015.

Just like its namesake, the Euromaid Black Pearl Series of ovens are opulent yet practical in terms of aesthetics and design. The accessibly chic and sophisticated range of ovens feature the current trend of black glass and stainless steel. A strong design statement for any kitchen.

The series consists of 7 products – from entry level to high end ovens targeted at buyers looking for features to help them achieve professional results at home. Cooking enthusiasts as well as the home cook will be delighted with features such as soft close doors, digital thermostats, pyrolytic cleaning and rapid heat technology.

Lemair Wine Storage Cabinet LWC59

The Lemair wine storage cabinet maintains wine in a perfectly controlled environment. It provides a thermostat controlled temperature ranging from 7-18°C that allows storage of reds, whites, champagnes or a combination of wines. The Lemair wine storage cabinet has a 59 Bordeaux bottle capacity with 5 slideout shelves for flexible wine storage.

The perfect ensemble for your kitchen.

Baumatic Studio Solari

Baumatic has set the style standard with the Studio Solari collection. With the elegance of black optical glass, and the sophistication of a titanium finish, you will be sure to find the perfect ensemble for any modern kitchen.

And beauty is not skin deep. Baumatic appliances have been crafted using state of the art technology to achieve premium quality and ease of operation.

IT'S A WRAP

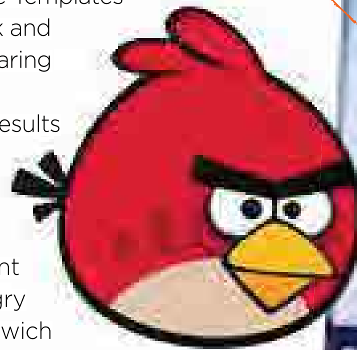
Australia's leading brand in bags, wraps and foil – Multix – continues to innovate and invigorate by responding to consumer demand for environmentally friendly products as well as establishing a core range of commercial products.

The coolest lunch for kids!

Leading the market with fresh ideas

Multix has continued to innovate its product range during the year. Multix responded to increasing consumer interest and demand for products that are kinder to the environment via the launch of the Multix Green range. Core to the Multix Green range is degradable cling film, a truly unique product which retains the strength and barrier qualities of traditional cling film with the added benefit of degradability. Also included in the range are degradable resealable bags and degradable kitchen tidy bags.

Another first to market is Multix Bake with cake tin templates. Perfect for home bakers, this unique product combines the benefits of non stick baking paper, with the convenience of printed cake tin templates. Multix Bake Templates take all the guess work and frustration out of preparing and lining cake tins, to produce professional results at home!



Supporting the growth of the resealable bag segment was the launch of Angry Birds Resealable Sandwich Bags. Printed with Angry Birds characters and including collectible stickers, these have quickly become the coolest way to pack lunch for the kids!

Invigorating our brand

As market leader, it is essential for the Multix brand to keep step with changing consumer tastes and lifestyles.

A rejuvenation of the Multix brand commenced in 2014, incorporating a bold new logo and contemporised packaging treatment. Designed to represent the Multix brand position of 'Inspiring Professional Results', the new visual identity will undoubtedly strengthen the Multix brand presence, whilst creating a strong backdrop for future development under the Multix brand.

Inspiring Professional Results

Expanding our horizons

New Zealand

Significant increases in the ranging of Multix branded products in New Zealand were confirmed in 2014, with the roll-out scheduled for early FY2015.

Comprising existing and new Multix products, the ranging increases are set to significantly increase the exposure of the Multix brand, thereby establishing a strong platform for future growth in this important market.

Listening to our consumers

Our consumers are at the heart of everything we do.

The household consumables division commissioned a consumer research study in October 2013 with a view to staying in touch with consumer's needs and wants.

The research generated valuable insight into consumer perceptions, opinions and shopping behaviour, thereby establishing a framework for the household consumables business and Multix brand strategies.

Commercial channel

In line with the Group's diversification strategy, Multix successfully entered the commercial channel during 2014.

It has now established a core range of catering size Multix cling film, aluminium foil and baking paper. Future growth in the commercial channel will be underpinned by the development of unique new products, tailor made for industry professionals.

The McPherson's Limited Group ("Group") and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the governance framework and related practices to ensure they achieve these standards and meet the interests of shareholders.

A description of the Group's main corporate governance practices is set out below. All these practices were in place throughout the entire financial year ended 30 June 2014 and comply with the ASX Corporate Governance Principles and Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The relationship between the Board and senior management is critical to the Group's long-term success. The Board of Directors is responsible to shareholders, and has a primary objective of achieving long-term growth in the value of McPherson's Limited shares. The Board of Directors is also responsible for the overall corporate governance of the Group including establishing the Group's strategic direction, establishing goals for management, and monitoring the achievement of those goals.

The Board's role has been documented in a Board Charter and in a Retained and Delegated Authorities of the Board document. The Board Charter and Retained and Delegated Authorities document can be viewed on the Company's website.

The Board has an Audit Risk Management and Compliance Committee and a Nomination and Remuneration Committee to assist in the execution of its responsibilities.

The Board has established a framework for the management of the Group including an overall framework for risk management, internal control and compliance. The day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives and is set out in the Board's Retained and Delegated Authorities document referred to above.

The Board undertakes an annual self assessment of its performance, the performance of individual Directors and of Board committees. An assessment has been undertaken during the year ended 30 June 2014. The process normally includes an assessment process and Directors meeting with the Chairman to discuss the outcomes of the review.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

The Directors of the Company in office at the date of this statement together with particulars of their qualifications, experience and special responsibilities are set out on pages 14 and 15 of the Annual Report.

In compliance with the Company's constitution and its Board Charter, the composition of the Board is determined using the following principles:

- The number of Directors must not be less than three. Directors may determine the size of the Board subject to this requirement;
- The Board is to be comprised of a majority of non-executive Directors;
- The Chairman of the Board is to be a non-executive Director; and
- The Board should comprise Directors with a broad range of expertise both nationally and internationally that is relevant to the strategic direction of the Group.

When a vacancy exists, or where it is considered that the Company would benefit from the services of a new Director with particular skills, the Nomination and Remuneration Committee selects a panel of candidates with the appropriate expertise and experience. The Board then appoints the most suitable candidate who must stand for election at the next Annual General Meeting of shareholders.

The terms and conditions of the appointment and retirement of Directors are set out in an agreement between the Company and Directors (called a "Director's Deed"). The Director's Deed also includes provisions relating to Directors' other rights and obligations. The Director's Deeds have been approved at an Annual General Meeting of shareholders.

The Company's Constitution stipulates that a Director may not hold office for a continuous period in excess of three years or past the third Annual General Meeting following the Director's appointment, whichever is the longer, without submitting for election or re-election at the next Annual General Meeting of members. This requirement does not apply to the Managing Director.

Independence of Directors

The Board assesses the independence of Directors with reference to the definition of an independent Director contained in the ASX CGC's Corporate Governance Principles and Recommendations, namely:

"An independent Director is a non-executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement."

All facts and circumstances will be considered by the Board in determining the independence of a Director. It is not possible to provide prescriptively for all circumstances that will constitute a conflict of interest or a material relationship. Nor is it possible to pre-determine whether such circumstances will be concluded as likely to affect a Director's independent exercise of judgement.

Subject to the general proviso referred to above, the Board considers that a non-executive Director will be independent if they:

1. have not been a substantial shareholder of the Company, or an officer of or otherwise associated directly with, a substantial shareholder of the Company;
2. have not within the last three years been employed in an executive capacity by the Company or another Group member;
3. have not in the last three years been a principal of a material professional adviser or a material consultant to the Company (or the Group) or an employee materially associated with the service provided;
4. are not a material supplier or customer of a Company or other Group member or an officer or otherwise associated directly or indirectly with a material supplier or customer;
5. do not have a material contractual relationship with the Company or another Group member other than as a Director of the Company; and
6. do not have any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's independent exercise of their judgement.

The Directors consider it important to acknowledge and apply the definition of "independence" under the ASX CGC's Corporate Governance Principles and Recommendations in determining and assessing the composition of the Board from time to time. The Independent Directors of the Company are David Allman, John Clifford, Graham Cubbin and Amanda Lacaze. Paul Maguire is not considered to be independent due to his role as Managing Director.

Independent Professional Advice

Each Director has the right to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required, which approval is not to be unreasonably withheld.

Nomination and Remuneration Committee

To assist in the execution of its responsibilities the Board has an established Nomination and Remuneration Committee. The Nomination and Remuneration Committee is comprised of three non-executive Directors. The names of Nomination and Remuneration Committee members and their attendance at meetings are detailed on page 14 of the Annual Report.

The Nomination and Remuneration Committee Charter, which is published on the Company's website, sets out the responsibilities of the Nomination and Remuneration Committee.

Key responsibilities of the Committee include:

Nominations

- The establishment and maintenance of a process for determining the necessary and desirable competencies of Board members and the assessment of those competencies;
- The appointment of suitably qualified candidates to the Board in accordance with Board policy; and
- The establishment and maintenance of a process for the evaluation of the Managing Director.

Remuneration

- The Company's recruitment, retention and termination policies and procedures for executive/senior management;
- Any report on executive remuneration, which is required pursuant to any Listing Rule or legislative requirement, or which is proposed for inclusion in the Annual Report;
- Non-executive Director remuneration;
- Staff incentive plans proposed by the Managing Director, including bonus, share and option plans, and the basis of their application amongst differing levels of staff;
- Salary, benefits and total remuneration packages of the Managing Director and senior staff reporting to the Managing Director; and
- Employee succession planning to ensure the continuity and quality of management.

The Nomination and Remuneration Committee Charter requires that the Committee undertakes a regular self assessment process. Such a review was undertaken during the year ended 30 June 2014.

A summary of the process adopted for the performance evaluation of the Board, individual Directors and senior executives can be viewed on the Company's website. Evaluations consistent with this process took place during the year ended 30 June 2014.

Audit Risk Management and Compliance Committee

The Company also has an Audit Risk Management and Compliance Committee; see page 30 for details.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Ethical Standards and Stakeholders

The Policies & Procedures Manual maintained by the Group has a section on Ethics and Business Conduct that prescribes the standards in accordance with which each Director and employee of the Group is expected to act. The Ethics and Business Conduct policy covers issues such as professional conduct, dealing with customers, suppliers and competitors, dealing with the community and other employees and computer network usage.

All Directors, managers and employees are required to maintain the standards of ethical conduct established by the Group in accordance with the Ethics and Business Conduct policy. The policy is posted on the Company's website.

A separate policy also exists which provides clear guidelines for Directors and employees intending to deal in McPherson's Limited securities, and this policy is also published on the Company's website. In summary, the policy states that providing an individual is not in possession of unpublished price sensitive information, trading in the Company's securities is permitted, apart from the following

periods during which trading in company securities is prohibited:

1. The period commencing one month before the end of the half year (i.e. from 30 November) until the day following the day on which the Company's half year results are announced; and
2. The period commencing one month before the end of the full financial year (i.e. from 31 May) until the day following the day on which the Company's full year results are announced.

Diversity Policy

The Company values diversity and recognises the benefits it can bring to the Group's ability to achieve its goals. Accordingly the Company has established a Diversity Policy which reflects the Company's commitment to workplace diversity. The policy has been published on the Company's website.

Under the Diversity Policy and in compliance with the ASX CGC's Corporate Governance Principles and Recommendations on diversity the Board has established the following targets with respect to gender diversity:

- Maintain the strong representation of women within the Group by having the number of women employed by the Group and the number of women in senior manager / manager positions to be at least 50% at 30 June 2015;
- Maintain or increase the number of women in senior executive positions, with the target range being 11% to 22% by 30 June 2015; and
- Maintain or increase the representation of women on the Board, with the target range being 20% to 40% by 30 June 2015.

In order to assist the Company in achieving these objectives, the Company will:

- Ensure that all employees and applicants for employment are fairly considered according to their skills, qualifications, abilities and aptitudes with regard to factors that are relevant to the person's skill or ability to fulfil the inherent job requirements;
- Introduce mentoring programs and professional development programs targeted at female employees to prepare them for management positions;
- Promote a safe work environment by taking action against any inappropriate workplace and business behaviour (including discrimination, harassment, bullying, victimisation and vilification);
- Increase networking opportunities for women; and
- Support the promotion of women to management roles.

The following table sets out the Group's actual position in relation to gender diversity as at 30 June 2014:

	NUMBER	%
Number of women employees in the Group	720	73
Number of women in senior manager/manager positions	46	40
Number of women in senior executive positions	1	11
Number of women on the Board	1	20

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit Risk Management and Compliance Committee

As indicated earlier the Board has constituted an Audit Risk Management and Compliance Committee. The purpose of the Audit Risk Management and Compliance Committee is to provide the Board with further assurance in relation to the:

- Operation of the Group's risk management, internal control and compliance systems;
- Reliability of financial information prepared for use by the Board; and
- Evaluation of the audit process.

The role of the Audit Risk Management and Compliance Committee is fully documented in a Charter, which is approved by, and considered for amendment by the Directors annually. The Charter is published on the Company's website. In accordance with this Charter, all members of the Committee must be non-executive Directors.

The Company's governance practices have fully complied with the ASX CGC's Corporate Governance Principles and Recommendations relating to audit committees. Recommendation 4.3 provides that a company's audit committee should:

- Have at least three members;
- Consist of a majority of independent Directors; and
- Not be chaired by the chairperson of the Board.

The Recommendations are complied with as set out below:

- The Audit Risk Management and Compliance Committee comprises three members being, Graham Cubbin, David Allman and Amanda Lacaze;
- All three members are independent; and
- David Allman is the Chairman of the Board and Graham Cubbin is Chairman of the Audit Risk Management and Compliance Committee.

The Chairman of the Board and any non-executive Director may attend the Audit Risk Management and Compliance Committee Meetings. The internal and external auditors, the Managing Director and the Chief Financial Officer are invited to Audit Risk Management and Compliance Committee meetings at the discretion of the Committee. The Committee is therefore able to meet without management being present. The Committee also ensures that it meets with the external auditors without management being present on at least an annual basis.

The Audit Risk Management and Compliance Committee makes recommendations to the Board in relation to the appointment of the external auditors, reviews the auditor's performance on an annual basis and ensures the audit engagement partner is rotated in accordance with the Corporations Act requirements.

The Company may use the services of an outsourced internal audit provider to assess the effectiveness of the Company's risk management, internal control and compliance system. The internal auditor is independent of the external auditor and is appointed by the Board on recommendation from the Committee. The Committee

meets with the internal and external auditors during the year to consider all aspects of their respective audit functions.

The Audit Risk Management and Compliance Committee requests that the external auditor attend the Annual General Meeting to answer questions about the conduct of the audit, the independence of the auditor and the content of the audit report.

The names and qualifications of Audit Risk Management and Compliance Committee members and their attendance at meetings are detailed on page 14 of the Annual Report.

The Committee is required to undertake a process of self assessment annually, to assess the effectiveness of the Committee. Such a review was undertaken during the year ended 30 June 2014.

PRINCIPLES 5 AND 6: MAKE TIMELY AND BALANCED DISCLOSURES AND RESPECT THE RIGHTS OF SHAREHOLDERS

Continuous Disclosure and Shareholder Communication

The Board informs shareholders of all major developments affecting the Company's state of affairs. The Company has a Communications Policy to ensure compliance with the ASX Listing Rules disclosure requirements in relation to continuous disclosure, accountability for disclosure to the markets, for other shareholder communications and encouraging shareholder participation at Annual and other General Meetings.

McPherson's has established a website which provides information to investors including:

- Announcements to the market for the past three years;
- Half-yearly and annual financial data for the past three years; and
- Corporate Governance policies including the policy entitled Communications Policy.

All information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the Company's website.

The Company Secretary is the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Board seeks to encourage participation of shareholders at the Annual General Meeting to ensure a high level of accountability. Important issues are presented as single resolutions.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the Audit Risk Management and Compliance Committee and reviewed by the Board.

Risk is an important consideration in 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 Company's Risk Management Policy and Internal Control Framework can be viewed on the Company's website.

As indicated below, in accordance with the risk management policy, management has reported to the Board as to the effectiveness of the Company's management of material business risks.

Further information regarding the key risks for the Group is contained in the Review of Operations, which can be found on pages 9 to 13 of the Annual Report.

Internal Control and Compliance Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has established an internal control framework that can be described under the following headings:

- Financial reporting - a comprehensive budgeting system is in place with an annual budget approved by the Directors. Monthly actual results that are reported against budget and revised forecasts for the year are prepared regularly for internal use by Directors and management.
- ASX disclosure and compliance - the Group reports to shareholders on an annual basis and to the ASX half-yearly. Procedures are also in place to ensure that price sensitive information is reported to the ASX in accordance with the continuous disclosure requirements of the ASX Listing Rules. The Company Secretary has primary responsibility for making recommendations to the Chairman and Managing Director on whether information is price sensitive. Further details are included in the Company's Communications Policy which can be viewed on the Company's website.

- CEO and CFO assurance - the Managing Director and Chief Financial Officer have made the following certification to the Board in connection with the full-year financial statements:
  - that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
  - that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.
- Quality and integrity of personnel - the Group's personnel policies are detailed in a Policies & Procedures Manual, compliance with appropriate sections of which is mandatory by all operating units.
- Environmental controls - the Group has a specific policy under the terms of which it is mandatory for all business units within the Group to operate in a manner which complies with all applicable environmental laws, regulations and permits.
- Operating unit controls - financial controls and procedures including information systems controls are detailed in the Policies & Procedures Manual.
- Functional specialty reporting - the Group has identified a number of key areas which are subject to regular reporting to the Board including employee safety, environmental, foreign currency hedging, legal and insurance matters.
- Investment appraisal - the Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed justification and review procedures and levels of authority and due diligence requirements.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Policy

The Group's remuneration policy and structure is equitable, competitive and consistent so as to ensure the recruitment and retention of personnel of the capability, competence and experience necessary for the successful achievement of the Group's strategies and goals. The Group's Nomination and Remuneration Committee is responsible for the Group's overall remuneration policy and framework.

Remuneration is set according to the following principles:

- No individual may be involved directly in determining his/her remuneration. External advice in relation to remuneration will be sought, where appropriate;
- Remuneration disclosure to shareholders will at a minimum comply with the requirements of legislation and Accounting Standards and reflect all benefits including:
  - Base pay and benefits;
  - Short term performance incentives;
  - Long term incentives including options;
  - Post employment benefits including superannuation; and
  - Termination benefits.
- Incentive payments for executives are related to Company performance, individual performance against goals, market conditions and independent expert advice where appropriate and may include options and/or performance rights over shares in the Company granted under the McPherson's Limited Employee Share/Option Purchase Plan or the McPherson's Limited Employee Performance Rights Plan at the discretion of the Board or the Nomination and Remuneration Committee; and
- Remuneration for non-executive Directors is determined by the Nomination and Remuneration Committee within a maximum amount determined by shareholders from time to time at the Annual General Meeting. Non-executive Directors are not entitled to participate in any incentive scheme.

Where considered necessary, Directors may obtain independent advice on the appropriateness of remuneration packages.

The maximum aggregate remuneration able to be paid by the Company to the Directors for each financial year is determined from time to time at the Annual General Meeting of shareholders. Any Director who serves on a committee or who devotes special attention to the business of the Group outside the scope of their ordinary duties may receive an additional payment commensurate with the extra duties performed.

Information regarding Directors' and other key management personnel remuneration is set out in the Remuneration Report within the Directors' Report on pages 35 to 44.

McPHERSON'S LIMITED ACN 004 068 419

Directors' report (including remuneration report)	34
Auditor's independence declaration	46
Directors' declaration	47
Independent auditor's report to the members of McPherson's Limited	48
Consolidated statement of comprehensive income	49
Consolidated balance sheet	50
Consolidated statement of changes in equity	51
Consolidated statement of cash flows	52
Notes to and forming part of the consolidated financial statements	53
Shareholder information	96
Corporate directory	98

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 2014.

(A) DIRECTORS

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

D. J. Allman, P.J. Maguire, J.P. Clifford, G.A. Cubbin and A.M. Lacaze.

(B) PRINCIPAL ACTIVITIES

McPherson's 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 and skin care product ranges; the consumer durables division markets and distributes large appliances such as cooktops, ovens, washing machines and dishwashers, as well as housewares products such as cutlery, knives, bakeware and cookware; and the household consumables division markets and distributes kitchen essentials such as plastic bags, baking paper, cling wrap and aluminium foil.

McPherson's manages some significant brands for overseas agency partners; 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, Swisspers, Moosehead, Maseur, Euromaid, Baumatic, Wiltshire, Stanley Rogers and Multix.

During the year the Group expanded its health & beauty product range with the acquisitions of the Dr LeWinn's, Maseur and Revitanail brands. The Group also expanded its large appliance product range with the acquisition of the Think Appliances business as well as the Baumatic and Lemair brands.

(C) DIVIDENDS

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

	$000'S
Interim ordinary dividend of 6.0 cents per fully paid ordinary share paid on 10 April 2014 (fully franked)	5,640
Final ordinary dividend of 5.0 cents per fully paid ordinary share declared by Directors (fully franked) but not recognised as a liability at year end	4,772
Total dividends in respect of the year	10,412

The 2013 final ordinary dividend of $6,251,000 (7.0 cents per fully paid ordinary share) referred to in the Directors' Report dated 19 August 2013 was paid on 12 November 2013.

(D) CONSOLIDATED RESULTS

The consolidated loss after tax of the Group for the year ended 30 June 2014 was $66,557,000 (2013: loss $33,319,000[1]). The current year loss is inclusive of significant items amounting to a net expense after tax of $81,291,000 (2013: net expense $46,376,000). The primary item included within this amount is an after tax impairment charge of $79,473,000 (2013: $48,500,000) relating to goodwill and brandnames associated with the Australian cash generating unit (excluding Home Appliances). Refer to Note 5(c) Significant items for further information.

Excluding significant items, the consolidated profit after tax for the year ended 30 June 2014 was $14,734,000 (2013: $13,057,000).

(E) REVIEW OF OPERATIONS

The review of operations of the Group is contained in the Chairman and Managing Directors' Report on pages 6 to 7 and the Review of Operations on pages 9 to 13 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:

Contributed equity increased by $7,886,000 from $139,117,000 to $147,003,000 as a result of the dividend reinvestment plan ($3,160,000) and the underwriting of the dividend reinvestment plan associated with the 30 June 2013 final dividend ($4,804,000). Transaction costs, net of tax, of $78,000 were recognised as a reduction to equity. Details of the changes in contributed equity are disclosed in Note 24 to the financial statements.

The net cash received from the increase in contributed equity was used to partially fund the acquisitions undertaken during the year and for working capital purposes.

(G) EVENTS SUBSEQUENT TO BALANCE DATE

On 1 July 2014 the Group commenced a two year renewable distribution agreement with Trilogy International Limited (a New Zealand listed consumer goods company) for the Group's Australian business to distribute the Trilogy branded natural skincare products within Australia.

On 3 July 2014 the Group's Australian business entered into an agreement to acquire the natural skincare brands A'kin and Lapurete and the natural hair care brand Al'chemy and associated inventory for $7,770,000. The acquisition is due to complete on 1 December 2014. The Group is currently selling the associated products as part of a transitional, short term agency relationship until the acquisition completes.

1. See Note 1(a) of the financial statements for details about restatements associated with the Group early adopting AASB 9 Financial Instruments.

On 1 August 2014 the Group commenced a one year renewable distribution agreement with Proctor and Gamble Plc for the Group's Australian business to distribute the well known fragrance brands of Dolce&Gabbana, Gucci and Hugo Boss within the Australian Market (excluding duty free stores).

On 18 August 2014, the Group signed a Heads of Agreement with the Fackelmann Group which proposes the transfer of the Group's existing housewares business to a new venture in which the Fackelmann Group will acquire a majority stake at the proportionate net tangible asset value. Once established, the new venture will market and distribute the combined ranges of housewares products. This new venture is intended to be established by 1 November 2014. The terms of the Heads of Agreement with the Fackelmann Group provide a Put Option for McPherson's to divest the remaining 49% of the new housewares venture after one, two or three years for a consideration comprising the sum of net asset value and a multiple of future earnings. Additionally, the Fackelmann Group has a corresponding Call Option on similar terms. The parties are not bound to exercise these options.

On 18 August 2014, the Directors of the Company declared a final dividend of 5.0 cents per share fully franked which is payable on 11 November 2014 (refer to Note 5).

No other matter or circumstance has arisen since 30 June 2014 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

During the current period the Directors decided to pursue a sale of the Group's Household Consumables and Housewares businesses. Sales of these businesses are being pursued on an individual basis. The Directors expect to complete the sales within the financial year ending 30 June 2015. If the sales are successfully completed the net proceeds generated are likely to be used to reduce the Group's debt balance and to fund further acquisitions within the Group's health & beauty and / or appliances division.

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 2014.

(I) INFORMATION ON DIRECTORS

Particulars of the qualifications, experience and special responsibilities of each Director as at the date of this report are set out on pages 14 to 15 of the Annual Report and form part of this Directors' Report.

Particulars as to the number of Directors' meetings (including meetings of the Audit Risk Management and Compliance and the Nomination and Remuneration Committees of Directors) and the number of meetings attended by each of the Directors of the Company during the year are set out on page 14 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 14 to 15 of the Annual Report and form part of this Directors' Report.

(J) COMPANY SECRETARIES

Particulars of the qualifications and experience of the Company Secretaries are set out on page 15 of the Annual Report and form part of this Directors' Report.

(K) REMUNERATION REPORT

The remuneration report sets out remuneration information for the Company's non-executive Directors, Managing Director and other key management personnel.

The remuneration report contains the following sections:

- Key management personnel disclosures
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- 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*.

(K) REMUNERATION REPORT (CONTINUED)

Key management personnel disclosures

Directors

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

Chairman (Non-executive)

D.J. Allman

Executive Director

P.J. Maguire - Managing Director

Non-executive Directors

J.P. Clifford

G.A. Cubbin

A.M. Lacaze

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
G.P. Mitchell	General Manager, McPherson's Consumer Products NZ
C. J. Muir	Global Supply Chain Director

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 Company'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:

	2014	2013[1]	2012	2011	2010
Statutory (loss)/profit for the year ($'000)	**(66,557)**	(33,319)	17,028	19,499	25,649
Profit after tax - excluding significant items	**14,734**	13,057	18,665	26,160	23,228
Basic earnings per share (cents)	**(71.9)**	(43.2)	23.5	27.1	36.4
Basic earnings per share - excluding significant items (cents)	**15.9**	16.9	25.4	35.9	32.2
Dividends declared for the relevant financial year ($'000)	**10,412**	14,652	12,308	18,824	14,330
Dividend payout ratio as a percentage of statutory profit (%)	**n/m[2]**	n/m[2]	72.3	96.5	55.9
Dividend payout ratio as a percentage of profit excluding significant items (%)	**70.7**	112.2	65.9	72.0	61.7
(Decrease)/increase in share price (%)	**(13.1)**	(21.3)	(40.1)	20.3	46.1
Total KMP incentives as percentage of statutory (loss)/profit for the year (%)	**(0.2)**	(0.3)	2.4	4.9	5.9
Total KMP incentives as percentage of profit after tax excluding significant items (%)	**0.8**	0.7	2.2	3.7	6.5

1 See Note 1(a) of the financial statements for details about restatements associated with the Group early adopting AASB 9 Financial Instruments.
2 Ratio not considered meaningful due to statutory loss after tax recognised for the year.

Use of Remuneration Consultants

During the year ended 30 June 2014 the Group engaged PricewaterhouseCoopers (PwC) to provide tax and general advice associated with the Group's new performance rights long-term incentive plan. This advice did not require PwC to provide a remuneration recommendation and as such no remuneration consultant disclosures are required.

Nomination and Remuneration Committee

McPherson's has a Nomination and Remuneration Committee which 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 2014 totalled $378,137 (2013: $375,384).

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 as at 1 October 2012, at which time non-executive Director fees were increased by an average of 3%. There was no increase in Directors' fees during the current 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. Members of the Nomination and Remuneration Committee do not receive additional fees for their membership of this committee. 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 2014 and continue to apply at the date of this report:

	FROM 1 OCTOBER 2012
Base fees	
Chairman	$127,310
Other non-executive Directors	$66,840
Additional fees	
Audit Risk Management & Compliance Committee — Chairman	$8,490
Audit Risk Management & Compliance Committee — Member	$5,300

The above amounts exclude company superannuation guarantee contributions payable on behalf of Directors at a rate of 9.25% (9.50% from 1 July 2014) on the base fees and additional fees.

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.

(K) REMUNERATION REPORT (CONTINUED)

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 2014 STI targets were primarily based on the Group's earnings per share outcome.

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 performance of the Group in the current year, the Nomination and Remuneration Committee determined that senior executives had not achieved their STI targets and therefore were not eligible for a payment for the current year.

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 executives on delivering long-term shareholder returns. During the current year the Company introduced a new 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 cumulative annual growth in earnings per share — refer to page 41 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.

Previously long-term incentives were provided to executives via the McPherson's Limited Employee Option Plan. Under this plan, executives were granted options which only vest if certain performance conditions (relating to total shareholder return - refer pages 41 to 42 for further information) are met and the employee 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.

Further information regarding share-based compensation in the form of performance rights and options is contained later in the Remuneration Report on pages 41 to 43.

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 2013 Annual General Meeting

McPherson's Limited received 91.41% of "yes" votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

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.

2014	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	
NAME	CASH SALARY & FEES[1] $	CASH BONUS $	NON-MONETARY BENEFITS[2] $	SUPER-ANNUATION $	LONG-SERVICE LEAVE $	PERFORMANCE RIGHTS $	TOTAL $
Directors of McPherson's Limited							
D.J. Allman (Chairman)	123,148	-	-	21,400	-	-	144,548
P.J. Maguire (Managing Director)	510,453	-	27,990	25,000	6,400	67,538	637,381
J.P. Clifford	66,684	-	-	6,168	-	-	72,852
G.A. Cubbin	75,152	-	-	6,951	-	-	82,103
A.M Lacaze	71,976	-	-	6,658	-	-	78,634
Total Directors' Remuneration 2014	**847,413**	**-**	**27,990**	**66,177**	**6,400**	**67,538**	**1,015,518**
Other Group Key Management Personnel							
S.K.S. Chan	373,128	-	-	34,769	-	17,940	425,837
G.P. Mitchell	221,831	-	34,349	24,028	2,054	-	282,262
C. J. Muir	221,469	-	28,560	25,335	6,938	13,367	295,669
P. Witheridge	279,499	-	23,155	25,000	2,078	16,181	345,913
Total Other Key Management Personnel Remuneration 2014	**1,095,927**	**-**	**86,064**	**109,132**	**11,070**	**47,488**	**1,349,681**
Total Remuneration 2014 - Group	**1,943,340**	**-**	**114,054**	**175,309**	**17,470**	**115,026**	**2,365,199**

1. Cash salary and fees includes movements in the annual leave provision relating to the Managing Director and other executive key management personnel.
2. Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax, medical insurance premiums, and allowances.

2013	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENTS	
NAME	CASH SALARY & FEES[1] $	CASH BONUS $	NON-MONETARY BENEFITS[2] $	SUPER-ANNUATION $	LONG-SERVICE LEAVE $	OPTIONS $	TOTAL $
Directors of McPherson's Limited							
D.J. Allman (Chairman)	134,495	-	-	9,000	-	-	143,495
P.J. Maguire (Managing Director)	513,079	-	31,172	25,000	27,134	-	596,385
J.P. Clifford	66,350	-	-	5,972	-	-	72,322
G.A. Cubbin	74,776	-	-	6,730	-	-	81,506
A.M Lacaze	71,616	-	-	6,445	-	-	78,061
Total Directors' Remuneration 2013	**860,316**	**-**	**31,172**	**53,147**	**27,134**	**-**	**971,769**
Other Group Key Management Personnel							
S.K.S. Chan	333,002	-	-	31,065	-	31,992	396,059
G.P. Mitchell	230,665	-	31,320	22,434	-	15,995	300,414
C. J. Muir[3]	229,638	-	30,283	19,980	447	-	280,348
P. Witheridge	273,239	-	25,260	22,544	2,325	42,655	366,023
Total Other Key Management Personnel Remuneration 2013	**1,066,544**	**-**	**86,863**	**96,023**	**2,772**	**90,642**	**1,342,844**
Total Remuneration 2013 - Group	**1,926,860**	**-**	**118,035**	**149,170**	**29,906**	**90,642**	**2,314,613**

1. Cash salary and fees includes movements in the annual leave provision relating to the Managing Director and other executive key management personnel.
2. Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax, medical insurance premiums, and allowances.
3. Mr Muir was appointed as Global Supply Chain Director with effect from 2 July 2012. Amounts shown include Mr Muir's remuneration from that date until 30 June 2013.

(K) REMUNERATION REPORT (CONTINUED)

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 as follows:

NAME	FIXED REMUNERATION		AT RISK - STI		AT RISK — LTI		RELATING TO OPTIONS	
	2014	2013	2014	2013	2014	2013	2014	2013
Executive Director of McPherson's								
P.J. Maguire	**89%**	100%	**-**	-	**11%**	-	**-**	-
Other key management personnel of the Group								
S.K.S. Chan	**96%**	92%	**-**	-	**4%**	8%	**-**	8%
G.P. Mitchell	**100%**	95%	**-**	-	**-**	5%	**-**	5%
C. J. Muir	**95%**	100%	**-**	-	**5%**	-	**-**	-
P. Witheridge	**95%**	88%	**-**	-	**5%**	12%	**-**	12%

Service agreements

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. Termination benefits are within the limits set by the *Corporations Act 2001* such that they do not require shareholder approval.

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*	TERMINATION BENEFIT
P.J. Maguire *Managing Director*	On-going commencing 1 October 2012 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.	$550,000	Contract may be terminated on 12 months' notice by the Company and on 6 months' notice by the executive.
S.K.S. Chan *Managing Director McPherson's Consumer Products (HK) Limited*	On-going commencing 1 October 2012	HKD$2,689,450 (AUD$377,488)	Contract may be terminated on 3 months' notice by either the Company or Executive.
P Witheridge *Chief Financial Officer and Company Secretary*	On-going commencing 1 October 2012	$330,000	Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive.
G.P. Mitchell *General Manager McPherson's Consumer Products (NZ) Limited*	On-going commencing 1 October 2012	NZD$326,262 (AUD$294,700)	Contract may be terminated on 6 months' notice by either the Company or Executive.
C. J. Muir *Global Supply Chain Director*	On-going commencing 2 July 2012	$272,535	Contract may be terminated on 1 months' notice by the Company and on 1 months' notice by the executive.

* Base salaries quoted are for the year ended 30 June 2014; they are reviewed annually by the Nomination and Remuneration Committee.

Share-based compensation

Performance Rights — 2014 Financial Year

On 20 November 2013, subsequent to shareholder approval at the Annual General Meeting, the Group issued 416,000 performance rights to the Managing Director and certain other senior executives. 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 will be determined proportionately on a straight line basis based on the cumulative annual growth rate (CAGR) of the Group's earnings per share (EPS) over a two and three year period, with 50% of rights eligible to vest at 16 September 2015 and the remaining 50% of rights eligible to vest at 16 September 2016. The base year EPS to be used in determining whether the vesting conditions have been satisfied is the 30 June 2013 EPS adjusted by the Nomination and Remuneration Committee for appropriate non-recurring items. 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[1]	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	-	-	-	-	-
	2014	2017	96,000	$115,776	-	-	-	-	-
S.K.S. Chan	2014	2016	25,500	$33,660	-	-	-	-	-
	2014	2017	25,500	$30,753	-	-	-	-	-
C.J. Muir	2014	2016	19,000	$25,080	-	-	-	-	-
	2014	2017	19,000	$22,914	-	-	-	-	-
P. Witheridge	2014	2016	23,000	$30,360	-	-	-	-	-
	2014	2017	23,000	$27,738	-	-	-	-	-

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.

Options Granted - 2011 Financial Year

On 1 April 2011 the Company granted 1,050,000 options over ordinary shares in the Company to senior executives of the Group, including key management personnel, under the McPherson's Limited Share / Option Purchase Plan. The options form part of the executives' and key management persons' remuneration arrangements and effect remuneration in this reporting period. The options were issued on the following terms:

NUMBER GRANTED	GRANT DATE[1]	EXPIRY DATE	VALUE PER OPTION AT GRANT DATE[2]	AMOUNT PAID AT GRANT DATE	TERMS AND CONDITIONS OF GRANT				
					EXERCISE PRICE[2]	DATE EXERCISABLE		SHARE PRICE CRITERIA	SHAREHOLDER RETURN CRITERIA
						FROM	TO		
1,050,000	01-Apr-11	31-Mar-16	$0.57	-	$3.61	01-Apr-13	31-Mar-16	Note 2	Note 3

Notes:

1. The grant date for option valuation purposes is the option issue date of 1 April 2011.
2. The share price must equal or exceed the exercise price of $3.61 for a continuous period of 20 trading days (measured on a weighted average basis) before any assessment date.
3. Providing the above share price criterion is satisfied, total shareholder return (being a function of share price growth and dividend payments and measured on a compound basis) must exceed either:
   a. the percentage change in the S&P/ASX Small Ordinaries Index from the issue date to the assessment date; or
   b. 9% per annum, compounded from the issue date to the assessment date, in which case the number of options that vest will increase proportionately from a total shareholder return (compounded) of 9% (where no options will vest), to a total shareholder return of 11% (where all the options will vest).
4. Providing the performance criteria are satisfied, options may be exercised at any time between 1 April 2013 and 31 March 2016.
5. 425,000 of the options granted were to senior executives who are included within the key management personnel disclosures in the current year remuneration report.

The above options were cancelled on 8 November 2013 as part of the introduction of the Company's Performance Rights Plan.

No options have been granted since 2011.

(K) REMUNERATION REPORT (CONTINUED)

Options Granted - 2010 Financial Year

On 9 July 2009 the Company announced that it proposed to grant 1.5 million options over ordinary shares in the Company to the Managing Director designate, Mr Paul Maguire, under the McPherson's Limited Share / Option Purchase Plan. The grant was subject to the approval of shareholders which was given at the McPherson's Limited Annual General Meeting on 13 November 2009 following Mr Maguire's appointment as Managing Director on 1 November 2009. The options form part of Mr Maguire's remuneration arrangements. The options were granted and are exercisable in four equal tranches of 375,000. Details of the options outstanding at 30 June 2014 are set out below:

						TERMS AND CONDITIONS OF GRANT				
							DATE EXERCISABLE			
TRANCHE NO.	NUMBER GRANTED	GRANT DATE[1]	EXPIRY DATE	VALUE PER OPTION AT GRANT DATE[1]	AMOUNT PAID AT GRANT DATE	EXERCISE PRICE	FROM	TO	SHARE PRICE CRITERIA	SHAREHOLDER RETURN CRITERIA
3	375,000	06-Jul-09	06-Jul-14	$1.16	$3,750	$1.64	06-Jul-11	06-Jul-14	Note 2	Note 3
4	375,000	06-Jul-09	06-Jan-15	$1.10	$3,750	$1.75	06-Jan-12	06-Jan-15	Note 2	Note 3

Notes:

1. The issue of the options was subject to shareholder approval. The options were initially granted on 6 July 2009 and were formally approved at a General Meeting of shareholders on 13 November 2009. The grant date for option valuation purposes is the shareholder approval date of 13 November 2009.
2. The share price must exceed the relevant exercise price for a continuous period of 40 trading days.
3. Total shareholder return must exceed 15% per annum for the period from the grant date to the relevant exercise date.

Further information concerning the principal terms of issue of the options is set out below:

- Tranche 3 - 25% of the options granted may be exercised between two and five years from 6 July 2009 provided that the Company's shares have traded on the ASX at or above $1.64 (measured on a weighted average basis) for forty consecutive trading days, and total shareholder return (being a function of share price growth and dividend payments) exceeds 15% per annum for the period from 6 July 2009 to the exercise date;
- Tranche 4 - 25% of the options granted may be exercised between two and a half years and five and a half years from 6 July 2009 provided that the Company's shares have traded on the ASX at or above $1.75 (measured on a weighted average basis) for forty consecutive trading days, and total shareholder return (being a function of share price growth and dividend payments) exceeds 15% per annum for the period from 6 July 2009 to the exercise date;
- Allotment of any shares pursuant to the exercise of the options will occur progressively as options are exercised; and
- If the options have not become exercisable at the end of the exercise periods set out above, they will lapse at that time.

Mr. Maguire exercised 750,000 options comprising all of tranches 1 and 2 on 15 March 2011.

Entitlements to the options are considered to be vested as soon as they become exercisable provided total shareholder return continues to exceed the required 15% per annum for the period from grant date to the relevant exercise date. Options granted under the plan carry no dividend or voting rights. When exercised, each option is converted into one ordinary share in the Company.

The amounts disclosed for emoluments relating to options is the assessed fair value at grant date of each component of the options granted to senior executives net of any consideration paid by the executive, allocated over the period from grant date to the expected vesting date. Subject to the discretion of the Nomination and Remuneration Committee regarding the granting of further options in the future, the value of emoluments relating to options in future years will be the allocation of existing options on this basis.

Fair values at grant date were determined using a modified Black-Scholes binomial option pricing model that took into account the grant date, the exercise price, the term of the option, the vesting and performance criteria, the non-tradable nature of the option, the share price at grant date, the expected price volatility of the underlying share and the risk-free interest rate for the term of the option.

The Nomination and Remuneration Committee performs an assessment to determine whether the share price and other criteria have been satisfied before the commencement of and during the respective exercise periods.

The terms and conditions of the McPherson's Limited Employee Share/Option Purchase Plan provide that in the event of the death of an employee, the exercise period for options may be reduced at the discretion of the Directors, whereby the options can be exercised within 30 days of the Directors' discretion being applied, instead of during the prescribed exercise period(s).

The Company's Securities Trading Policy contains a restriction on removing the 'at risk' aspect of options or other instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of options or other instruments before they vest.

Performance rights and options held by key management personnel

NAME	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED (OPTIONS)/VESTED (RIGHTS)	CANCELLED	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
P.J. Maguire							
Options	750,000	-	-	-	750,000	-	750,000*
Performance Rights	-	192,000	-	-	192,000	-	192,000
S.K.S. Chan							
Options	150,000	-	-	(150,000)	-	-	-
Performance Rights	-	51,000	-	-	51,000	-	51,000
G.P. Mitchell							
Options	75,000	-	-	(75,000)	-	-	-
Performance Rights	-	-	-	-	-	-	-
C.J. Muir							
Options	-	-	-	-	-	-	-
Performance Rights	-	38,000	-	-	38,000	-	38,000
P. Witheridge							
Options	200,000	-	-	(200,000)	-	-	-
Performance Rights	-	46,000	-	-	46,000	-	46,000

* 375,000 of these unvested options expired on 6 July 2014.

Shares held by key management personnel

NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Directors of McPherson's Limited				
D.J. Allman	512,096	-	81,000	593,096
P.J. Maguire	1,250,143	-	-	1,250,143
J.P. Clifford	-	-	-	-
G.A. Cubbin	10,000	-	-	10,000
A.M. Lacaze	18,642	-	-	18,642
Other key management personnel				
S.K.S. Chan	-	-	-	-
G.P. Mitchell	-	-	-	-
C.J. Muir	-	-	-	-
P. Witheridge	8,000	-	13,000	21,000

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

Shares provided on exercise of remuneration options

No options were exercised during the current year (2013: Nil) and as such no shares were provided.

Employee share schemes

The Company does not currently operate an employee share scheme.

(K) REMUNERATION REPORT (CONTINUED)

Additional information

Cash bonuses

There were no cash bonuses paid to key management personnel in the current or prior year as 100% of the potential bonus amounts were forfeited due to the required performance criteria not being met.

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.

(L) SHARES UNDER OPTION

Unissued ordinary shares of McPherson's Limited under option at the date of this report are as follows:

DATE OPTIONS GRANTED	EXPIRY DATE	EXERCISE PRICE	NUMBER UNDER OPTION
6 July 2009	6 January 2015	$1.75	375,000

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

Shares issued on the exercise of options

No ordinary shares of McPherson's Limited were issued during the year ended 30 June 2014 (2013: Nil), or since that date, under the McPherson's Limited Employee Share/Option Purchase Plan as no options were exercised.

(M) INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has agreed to indemnify the current Directors and certain current executives of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors or officers of the Company, 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 Company 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 Company 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 audit and 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*.

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 2014 $	CONSOLIDATED 2013 $
Other assurance services		
PricewaterhouseCoopers Australian firm:		
Review of rent certificates	**6,000**	5,800
Overseas affiliates of PricewaterhouseCoopers Australian firm:		
Financial statements preparation	**3,000**	3,000
Other assurance services - Hong Kong	**-**	16,849
Total remuneration for other assurance services	**9,000**	25,649
Other services		
PricewaterhouseCoopers Australian firm:		
Tax advice relating to employee performance rights plan	**9,500**	-
Consulting services associated with remuneration review	**-**	24,000
Consulting services associated with due diligence review	**39,660**	65,000
Total remuneration for other services	**49,160**	89,000
Total remuneration for non-audit services	**58,160**	114,649

(Q) ROUNDING

The Company is of a kind referred to in Class Order 98/100 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 Class Order 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 non-executive Directors:

- G.A. Cubbin (Chairman)
- D.J. Allman
- A.M. Lacaze

(S) AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 46.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 18th day of August 2014.

D.J. Allman
Director

P.J. Maguire
Director

Auditor's Independence Declaration

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

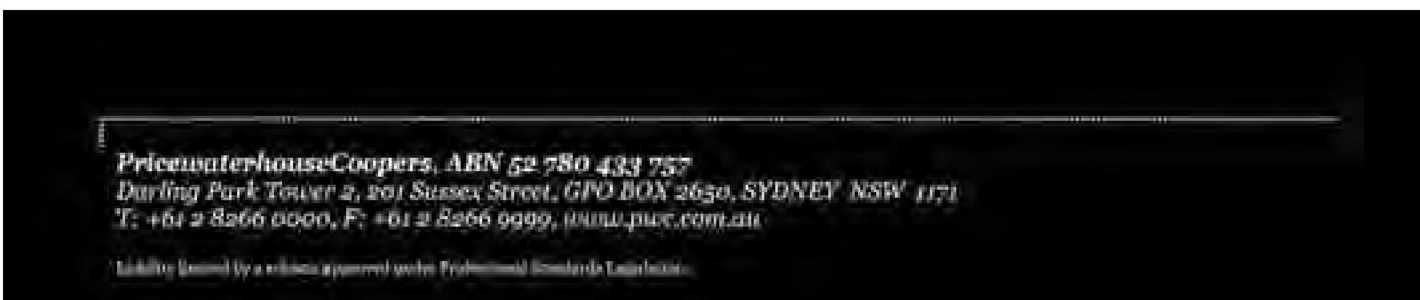
a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) 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.

Paddy Carney
Partner
PricewaterhouseCoopers

Sydney
18 August 2014



DIRECTORS' DECLARATION

We, David J. Allman 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 set out on pages 49 to 95 and the remuneration report on pages 35 to 44 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 2014 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 35 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 35.

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 18th day of August 2014.

D.J. Allman
Director

P.J. Maguire
Director

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 2014, 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 (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 1 (a), 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*.

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 2014 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 35 to 44 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

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Sydney
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	NOTE	2014 $'000	2013[1] $'000
Revenue	3	**353,413**	299,263
Other income	4	**646**	3,846
Expenses	5	**(409,320)**	(326,145)
Finance costs		**(6,647)**	(6,642)
Loss before income tax		**(61,908)**	(29,678)
Income tax expense	8(b)	**(4,649)**	(3,641)
Loss for the year		**(66,557)**	(33,319)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in fair value of cash flow hedges		**(7,955)**	7,200
Exchange differences on translation of foreign operations		**1,464**	1,864
Income tax relating to these items	8(d)	**2,377**	(2,154)
Other comprehensive income for the year		**(4,114)**	6,910
Total comprehensive income for the year		**(70,671)**	(26,409)

		CENTS	CENTS
Basic earnings per share	30	**(71.9)**	(43.2)
Diluted earnings per share	30	**(71.9)**	(43.2)

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

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

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2014

	NOTE	2014 $'000	2013[1] $'000	2012[1] $'000
Current assets				
Cash and cash equivalents	10	**4,120**	1,666	1,253
Trade and other receivables	11	**63,272**	56,762	55,550
Inventories	12	**45,489**	67,577	53,360
Derivative financial instruments	13	**-**	5,258	95
Assets classified as held for sale	14	**53,281**	-	-
Total current assets		**166,162**	131,263	110,258
Non-current assets				
Property, plant and equipment	15	**6,040**	7,667	7,076
Intangible assets	16	**88,266**	168,104	183,986
Deferred tax assets	17	**6,010**	5,597	5,462
Total non-current assets		**100,316**	181,368	196,524
Total assets		**266,478**	312,631	306,782
Current liabilities				
Trade and other payables	18	**50,627**	38,874	30,130
Borrowings	19	**2,820**	2,404	1,419
Derivative financial instruments	13	**3,854**	814	2,760
Provisions	20	**20,364**	15,965	6,085
Current tax liabilities		**652**	289	989
Liabilities directly associated with assets classified as held for sale	14	**7,874**	-	-
Total current liabilities		**86,191**	58,346	41,383
Non-current liabilities				
Borrowings	21	**76,000**	68,851	76,500
Derivative financial instruments	13	**978**	1,247	1,455
Provisions	22	**863**	949	828
Deferred tax liabilities	23	**7,902**	14,146	13,675
Total non-current liabilities		**85,743**	85,193	92,458
Total liabilities		**171,934**	143,539	133,841
Net assets		**94,544**	169,092	172,941
Equity				
Contributed equity	24	**147,003**	139,117	103,253
Reserves	25(a)	**(2,585)**	1,401	(5,674)
(Accumulated losses) / retained earnings	25(b)	**(49,874)**	28,574	75,362
Total equity		**94,544**	169,092	172,941

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

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

	NOTE	CONTRIBUTED EQUITY $'000	RESERVES $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2012[1]		**103,253**	**(5,674)**	**75,362**	**172,941**
Loss for the year[1]		-	-	(33,319)	(33,319)
Other comprehensive income[1]		-	6,910	-	6,910
Total comprehensive income[1]		**-**	**6,910**	**(33,319)**	**(26,409)**
Transactions with shareholders					
Shares issued, net of transaction costs and tax		35,864	-	-	35,864
Dividends provided for or paid	6	-	-	(13,469)	(13,469)
Share-based payment transactions with employees	25(a)	-	165	-	165
Total transactions with shareholders		**35,864**	**165**	**(13,469)**	**22,560**
Balance at 30 June 2013[1]		**139,117**	**1,401**	**28,574**	**169,092**
Loss for the year		-	-	(66,557)	(66,557)
Other comprehensive income		-	(4,114)	-	(4,114)
Total comprehensive income		**-**	**(4,114)**	**(66,557)**	**(70,671)**
Transactions with shareholders					
Shares issued, net of transaction costs and tax		7,886	-	-	7,886
Dividends provided for or paid	6	-	-	(11,891)	(11,891)
Share-based payment transactions with employees	25(a)	-	128	-	128
Total transactions with shareholders		**7,886**	**128**	**(11,891)**	**(3,877)**
Balance at 30 June 2014		**147,003**	**(2,585)**	**(49,874)**	**94,544**

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

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

	NOTE	2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**379,083**	334,519
Payments to suppliers and employees (inclusive of GST)		**(345,142)**	(306,966)
Interest received		**27**	64
Interest and borrowing costs paid		**(6,435)**	(7,001)
Income taxes paid		**(4,339)**	(5,847)
Net cash inflows from operating activities	36	**23,194**	14,769
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		**(1,405)**	(2,399)
Payment for acquisition of subsidiary, net of cash acquired	31	**-**	(16,604)
Payments for acquisition of business assets	31	**(23,654)**	(4,582)
Payments for purchase of other intangible assets		**(1,128)**	(768)
Proceeds from sale of property, plant and equipment		**70**	65
Proceeds from sale of business assets		**2,220**	-
Net cash outflows from investing activities		**(23,897)**	(24,288)
Cash flows from financing activities			
Proceeds from issue of shares	24	**4,804**	33,651
Transaction costs for issue of shares	24	**(111)**	(737)
Proceeds from borrowings		**143,529**	172,412
Repayment of borrowings		**(136,369)**	(177,500)
Repayment of subsidiary borrowings at time of acquisition	31	**-**	(6,132)
Dividends paid		**(8,731)**	(10,740)
Net cash inflows from financing activities		**3,122**	10,954
Net increase in cash held		**2,419**	1,435
Cash at beginning of financial year		**1,315**	(166)
Effects of exchange rate changes on cash		**(12)**	46
Cash held at end of financial year	10	**3,722**	1,315

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

NOTE 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 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of accounting standard

During the year the Group elected to early adopt AASB 9 *Financial Instruments* as issued in December 2013. This standard replaces the provisions of AASB 139 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities; the derecognition of financial instruments; and hedge accounting.

The key change for the Group associated with adopting AASB 9 relates to hedge accounting and the treatment of the movement in time value of foreign currency options. Previously under AASB 139 the movement in time value of foreign currency options used as hedging instruments had to be recognised in profit or loss, whereas AASB 9 requires the movement to be recognised initially in the hedge reserve and is then recycled to profit or loss either over the period of the hedge, if the hedge is time related, or when the hedged transaction affects profit or loss, if the hedge is transaction related. While AASB 9 does not need to be applied by the Group until the financial year beginning on 1 July 2017, the Group has decided to early adopt the standard in the current year because the new accounting policies are considered to provide more reliable and relevant information.

In accordance with the transition provisions included within AASB 9 comparative figures have been restated. The restatement has resulted in the following changes being made to the 2013 statement of comprehensive income and balance sheet:

	2013 PREVIOUSLY STATED $'000	RESTATEMENT $'000	2013 RESTATED $'000
Loss before tax	(27,736)	(1,942)	(29,678)
Tax expense	(4,224)	583	(3,641)
Loss for the year	**(31,960)**	**(1,359)**	**(33,319)**
Other comprehensive income	5,680	1,230	6,910
Total comprehensive income	**(26,280)**	**(129)**	**(26,409)**
Basic loss per share (cents)	(41.4)	(1.8)	(43.2)
Diluted loss per share (cents)	(41.4)	(1.8)	(43.2)
Inventories	67,334	243	67,577
Deferred tax liabilities	14,073	73	14,146
Retained earnings	28,404	170	28,574

In addition, the restatement resulted in the following changes being made to the 30 June 2012 closing balance sheet: an increase in inventory of $428,000; an increase in deferred tax liability of $129,000; a decrease in reserves of $1,230,000; and an increase in retained earnings of $1,529,000. All of these changes related to the Australian reportable segment disclosed within Note 7 Segment Information.

(b) Principles of consolidation

(i) 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.

(ii) 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

(i) 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.

(ii) 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 of 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.

(iii) 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; 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.

(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.

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.

(i) Investment Allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

(ii) 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).

(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.

(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 noncurrent asset (or disposal group) is recognised at the date of derecognition.

Noncurrent 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 noncurrent 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.

(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.

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 in the hedging reserve within 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. 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 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.

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.

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.

(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.

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, identified according to operating segments.

(ii) Supply contracts and distribution agreements

Certain supply contracts and distribution agreements acquired as part of a business combination have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives.

(iii) 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.

(iv) 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.

(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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Termination benefits

Liabilities for termination benefits, are recognised when a detailed plan has been developed and a valid expectation has been raised in those employees affected, that the termination will be carried out. 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).

(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 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 Class Order 98/100, 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 Class Order 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 2014 reporting period. The Group has considered the new standards and none of these standards are expected to have a material effect on the Group in future reporting periods or on foreseeable future transactions.

(ab) Parent entity financial information

The financial information for the parent entity, McPherson's Limited, disclosed in Note 38 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) 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 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 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. The actual payout amount may differ to what has been estimated. Refer to Note 31 for further details.

NOTE 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 (interest rate swap); if the time period of the hedging instrument (interest rate swap) 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:

	2014 $'000	2013 $'000
Financial assets		
Cash and cash equivalents (Note 10)	**4,120**	1,666
Trade and other receivables (Note 11)	**63,272**	56,762
Derivative financial instruments (Note 13)	**-**	5,258
	67,392	63,686
Financial liabilities		
Trade and other payables (Note 18)	**50,627**	38,874
Borrowings (Notes 19 and 21)	**78,820**	71,255
Derivative financial instruments (Note 13)	**4,832**	2,061
Contingent consideration (Note 20)	**12,885**	9,040
	147,164	121,230

The fair value measurements of the derivative financial instruments and contingent consideration from the above table are shown in Note 2(e).

(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.

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 risk is measured using cash flow forecasting.

The Board's risk management policy is to hedge 100% of anticipated cash flows (mainly inventory purchases) in United States dollars for approximately eight months subsequent, subject to a review of the cost of implementing each hedge. At balance date 100% (2013: 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 2014 was 0.8802 (2013: 0.9713).

NOTE 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

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	CHF	HKD	AUD	SNG
30 June 2014 - Group									
Trade receivables	**236**	**-**	**-**	**309**	**82**	**-**	**-**	**875**	**-**
Trade payables	**248**	**-**	**302**	**7**	**-**	**76**	**351**	**955**	**-**
Forward foreign exchange contracts - buy foreign currency	**44,593**	**1,492**	**2,110**	**-**	**-**	**-**	**-**	**187**	**691**
Foreign currency options - buy foreign currency	**56,434**	**-**	**1,181**	**-**	**-**	**-**	**-**	**-**	**-**
30 June 2013 - Group									
Trade receivables	882	189	-	130	-	-	-	866	-
Trade payables	227	4	134	317	-	-	332	802	-
Forward foreign exchange contracts - buy foreign currency	8,162	1,263	4,486	-	-	-	-	346	639
Foreign currency options - buy foreign currency	86,970	-	2,216	-	-	-	-	-	-

Group Sensitivity

Based on the financial instruments held at 30 June 2014, 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 $2,070,000 higher / $1,619,000 lower (2013: $3,644,000 higher / $2,926,000 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. Interest on borrowings is paid at variable rates which expose the Group to cash flow interest rate risk. The Group's receivables are carried at amortised cost and 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 Board's current risk management policy is to generally hedge no less than 60% of the term debt facilities which also satisfies the hedging requirements of the Group's current term debt facility agreement. The hedge contract has a commencement date of 30 August 2013, termination date of 30 August 2016 and covers an aggregate amount of $60.0 million. The contract restricts interest rate exposure to 4.20% (excluding the Group's credit margin) for this portion of the debt.

All contracts are settled on a quarterly basis and compared with the 90 day Bank Bill Swap Reference Rate (BBSW).

2014	WEIGHTED AVERAGE INTEREST RATE %[1]	BALANCE $'000	% OF TOTAL LOANS %
Bank overdrafts and bank loans	**2.7**	**78,398**	**99**
Interest rate swaps (notional principal amount)	**4.2**	**(60,000)**	
Net exposure to cash flow interest rate risk		**18,398**	**23**
2013			
Bank overdrafts and bank loans	3.2	71,351	99
Interest rate swaps (notional principal amount)	4.2	(60,000)	
Net exposure to cash flow interest rate risk		11,351	16

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

Group Sensitivity

At 30 June 2014, 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 $411,000 higher / $417,000 lower (2013: $633,000 higher / $633,000 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 $104,000 lower / $104,000 higher (2013: $135,000 lower / $135,000 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(a). 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 only 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.

(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.

	2014 $'000	2013 $'000
Financing Arrangements		
The Group has access to the following undrawn borrowing facilities at the end of the reporting period:		
Unused at balance date — floating rate		
Expiry within one year (bank overdraft and loans)	**25,079**	24,006
Expiring beyond one year (bank loans)	**-**	15,000
	25,079	39,006

Refer to Note 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.

30 JUNE 2014	LESS THAN 1 YEAR $'000	BETWEEN 1 & 2 YEARS $'000	BETWEEN 2 & 3 YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000	CARRYING AMOUNT $'000
Non-derivatives					
Payables	**50,627**	**-**	**-**	**50,627**	**50,627**
Contingent consideration[1]	**4,170**	**8,715**	**-**	**12,885**	**12,885**
Borrowings	**7,115**	**78,024**	**-**	**85,139**	**78,820**
Total non-derivative financial liabilities	**61,912**	**86,739**	**-**	**148,651**	**142,332**
Derivatives					
Forward foreign exchange contracts - inflow	**(46,945)**	**-**	**-**	**(46,945)**	**-**
Forward foreign exchange contracts - outflow	**49,074**	**-**	**-**	**49,074**	**1,952**
	2,129	**-**	**-**	**2,129**	**1,952**
Interest rate contracts	**835**	**835**	**142**	**1,812**	**1,812**
Foreign currency options	**1,184**	**-**	**-**	**1,184**	**1,068**
Total derivative financial instrument liabilities	**4,148**	**835**	**142**	**5,125**	**4,832**
30 JUNE 2013					
Non-derivatives					
Payables	38,874	-	-	38,874	38,874
Contingent consideration[1]	-	325	8,715	9,040	9,040
Borrowings	7,037	12,002	62,687	81,726	71,255
Total non-derivative financial liabilities	45,911	12,327	71,402	129,640	119,169
Derivatives					
Interest rate contracts	764	575	672	2,011	2,011
Total derivative financial instrument liabilities	764	575	672	2,011	2,011

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 2014 and 30 June 2013 respectively. The final payment amounts may significantly differ from the amounts disclosed above. Refer to Note 31 for further information.

NOTE 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 2014 and 30 June 2013 on a recurring basis:

	30 JUNE 2014				30 JUNE 2013			
RECURRING FAIR VALUE MEASUREMENTS	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Financial assets at fair value								
Derivative financial instruments	-	-	-	-	-	5,258	-	5,258
Financial liabilities at fair value								
Derivative financial instruments	-	4,832	-	4,832	-	2,061	-	2,061
Contingent consideration	-	-	12,885	12,885	-	-	9,040	9,040
Total financial liabilities at fair value	-	4,832	12,885	17,717	-	2,061	9,040	11,101

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. There were no transfers between levels during the year.

The following table presents the changes in level 3 instruments for the years ended 30 June 2014 and 30 June 2013:

	CONTINGENT CONSIDERATION PAYABLE $'000
Opening balance 1 July 2012	**-**
Acquisitions (refer Note 31)	12,540
Adjustments arising from reassessment of the provision (refer Note 5(c))	(3,500)
Closing balance at 30 June 2013	**9,040**
Acquisitions (refer Note 31)	4,140
Adjustments arising from reassessment of the provision[1]	(295)
Closing balance at 30 June 2014	**12,885**

1 The current year adjustment to the contingent consideration provision was adjusted against the carrying value of the associated asset, as opposed to profit or loss, as this contingent consideration arrangement related to an asset purchase rather than a business combination.

The fair value of the Group's provision for contingent consideration payable is determined using an internal calculation which uses relevant current and projected performance, and the contingent consideration agreement, as inputs. Refer Note 31 for further information.

NOTE 3. REVENUE

	2014 $'000	2013 $'000
Revenue from operating activities:		
Sales revenue	**353,386**	299,189
Other revenue:		
Interest	**27**	64
Royalties	**-**	10
Total revenue	**353,413**	299,263

NOTE 4. OTHER INCOME

	2014 $'000	2013 $'000
Commissions	**309**	113
Contingent consideration adjustment	**-**	3,500
Other income	**337**	233
Total other income	**646**	3,846

NOTE 5. OPERATING LOSS

(a) Expenses

	2014 $'000	2013[1] $'000
Materials and consumables used	**205,685**	163,823
Employee costs	**48,732**	45,619
Advertising and promotional	**17,853**	15,038
Cartage and freight	**20,438**	17,196
Third party warehousing	**8,128**	7,232
Rental expenses relating to operating leases	**7,037**	6,785
Depreciation	**2,502**	2,438
Amortisation of other intangibles	**393**	251
Restructure costs	**1,450**	1,581
Other expenses	**17,102**	16,182
Impairment of intangible assets	**80,000**	50,000
Total expenses	**409,320**	326,145

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

NOTE 5. OPERATING LOSS (CONTINUED)

(b) Loss before income tax expense includes the following net expenses and gains:

	2014 $'000	2013[1] $'000
Expenses:		
Total rental expenses relating to operating leases	**7,037**	6,785
Bad and doubtful debts - trade debtors	**127**	14
Provision for stock obsolescence	**4,082**	1,361
Other provisions:		
Employee entitlements	**3,035**	2,955
Employee incentives	**404**	188
Claims, returns and warranty	**1,423**	397
Restructure	**100**	-
Other	**161**	257
Total other provisions	**5,123**	3,797
Other expenses:		
Cost of goods sold	**205,685**	163,823
Loss on disposal of plant and equipment	**130**	52
Net foreign exchange losses/(gains)	**790**	(186)

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

(c) Significant items:

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

	2014 $'000	2013 $'000
(a) Impairment of goodwill within the Australian business segment (Note 16)	**(78,243)**	(45,000)
Less: Applicable income tax benefit	**-**	-
	(78,243)	(45,000)
(b) Impairment of brandnames within the Australian business segment (Note 16)	**(1,757)**	(5,000)
Less: Applicable income tax benefit	**527**	1,500
	(1,230)	(3,500)
(c) Business combination contingent consideration adjustment (Note 31)	**-**	3,500
Less: Applicable income tax expense	**-**	-
	-	3,500
(d) Restructure costs	**(1,450)**	(1,581)
Less: Applicable income tax benefit	**435**	457
	(1,015)	(1,124)
(e) Acquisition and transition related costs	**(1,148)**	(252)
Less: Applicable income tax benefit	**345**	-
	(803)	(252)
Total significant items	**(82,598)**	(48,333)
Less: Applicable income tax benefits	**1,307**	1,957
	(81,291)	(46,376)

The significant items set out in the table above are detailed below:

Impairment of goodwill and brandnames

During the current year an impairment charge of $80,000,000 was recognised against the Australian cash generating unit (excluding Home Appliances), with $78,243,000 of this charge being recognised against goodwill and the remaining $1,757,000 being recognised against certain brandnames. The impairment charge is a direct result of the reduced earnings being generated by the Group's Australian operations (excluding Home Appliances). Refer to Note 16 for further information.

During the prior year an impairment charge of $50,000,000 was recognised against the Australian cash generating unit (excluding Home Appliances), with $45,000,000 of this charge being recognised against goodwill and the remaining $5,000,000 being recognised against certain brandnames. The impairment charge was a direct result of the reduced earnings being generated by the Group's Australian operations (excluding Home Appliances).

Refer to Note 16 for further information.

Business contingent consideration adjustment

During the prior year the Group recognised a $3,500,000 gain associated with the reassessment of the provision for contingent consideration relating to the Footcare International acquisition. The reassessment was based on the actual outcomes achieved for the year ended 30 June 2013.

Refer to Note 31 for further information.

Restructure costs

The restructure costs recognised in the current year primarily relate to redundancy and inventory clearance costs associated with restructuring activities undertaken by the Group in relation to the businesses disclosed as held for sale at 30 June 2014. The restructuring costs recognised in the prior year related to redundancy and inventory relocation costs.

Acquisition and transition related 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 Think Appliances business (including the Baumatic brandname). The transaction costs associated with the acquisitions of the Dr LeWinn's, Revitanail, Maseur and Lemair brandnames have been capitalised as part of the respective asset costs given these acquisitions were considered asset only acquisitions rather than business combinations.

The Acquisition costs recognised in the prior year relate to the transaction costs incurred associated with the Group's acquisition of Footcare International and Home Appliances.

Refer to Note 31 for further information.

NOTE 6. DIVIDENDS

Details of dividends declared during the year ended 30 June 2014 are as follows:

	2014 $'000	2013 $'000
Final 30 June 2013 dividend of 7.0 cents per fully paid share (2012: 7.0 cents per fully paid share) fully franked @ 30%	**6,251**	5,068
Interim 2014 dividend of 6.0 cents per fully paid share (2013: 10.0 cents per fully paid share) fully franked @ 30%	**5,640**	8,401
Total dividends	**11,891**	13,469
Dividends not recognised at year end		
In addition to the above dividends, since the year end the Directors have declared a fully franked final dividend of 5.0 cents per fully paid share (2013: 7.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 11 November 2014 but not recognised as a liability at year end is:	**4,772**	6,251
Franked Dividends		
Franked dividends paid after 30 June 2014 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 2015.		
Franking credits available for subsequent financial years based on a tax rate of 30%	**21,351**	24,724

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits which are expected to arise from the payment of current tax liabilities.

Dividend reinvestment plans

The Company's dividend reinvestment plan continues to operate at a discount of 2.5% and will apply to the upcoming final dividend. Shareholders on the register at the record date of 8 October 2014 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 9 October 2014. 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 9 October 2014.

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, less the 2.5% discount.

NOTE 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.

NOTE 7. SEGMENT INFORMATION (CONTINUED)

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 $80,649,000 (2013: $77,804,000) and $67,713,000 (2013: $65,524,000) 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 estimated on consolidation.

2014	AUSTRALIA $'000	NEW ZEALAND $'000	REST OF THE WORLD $'000	INTER-SEGMENT ELIMINATIONS $'000	CONSOLIDATED $'000
Sales to external customers	308,109	33,466	11,811	-	353,386
Inter-segment sales	2,560	35	118,933	(121,528)	-
Total sales revenue	**310,669**	**33,501**	**130,744**	**(121,528)**	**353,386**
Other revenue / income	316	25	305	-	646
Total segment revenue and other income	**310,985**	**33,526**	**131,049**	**(121,528)**	**354,032**
EBITDA before significant items	23,871	3,251	3,083	-	30,205
Depreciation and amortisation expense	(2,436)	(411)	(48)	-	(2,895)
Segment result before significant items	21,435	2,840	3,035	-	27,310
Significant items (refer to Note 5(c))	(82,598)	-	-	-	(82,598)
Segment result including significant items	(61,163)	2,840	3,035	-	(55,288)
Net borrowing costs					(6,620)
Loss before income tax					**(61,908)**
Income tax expense					(4,649)
Loss after income tax					**(66,557)**
Total segment assets	**239,980**	**21,659**	**34,582**	**(29,743)**	**266,478**
Non-current assets (other than financial assets and deferred tax)	86,497	6,551	1,258	-	94,306
Additions to non-current assets (other than financial assets and deferred tax)	25,929	217	16	-	26,162
2013					
Sales to external customers	259,505	30,473	9,211	-	299,189
Inter-segment sales	1,792	1	114,916	(116,709)	-
Total sales revenue	261,297	30,474	124,127	(116,709)	299,189
Other revenue / income	3,572	60	224	-	3,856
Total segment revenue and other income	264,869	30,534	124,351	(116,709)	303,045
EBITDA before significant items[1]	22,709	2,858	2,355	-	27,922
Depreciation and amortisation expense	(2,232)	(407)	(50)	-	(2,689)
Segment result before significant items	20,477	2,451	2,305	-	25,233
Significant items (refer to Note 5(c))	(48,162)	(50)	(121)	-	(48,333)
Segment result including significant items	(27,685)	2,401	2,184	-	(23,100)
Net borrowing costs					(6,578)
Loss before income tax					(29,678)
Income tax expense					(3,641)
Loss after income tax					(33,319)
Total segment assets	287,231	21,004	31,387	(26,991)	312,631
Non-current assets (other than financial assets and deferred tax)	168,279	6,186	1,306	-	175,771
Additions to non-current assets (other than financial assets and deferred tax)	36,544	452	18	-	37,014

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

NOTE 8. INCOME TAX

(a) Income tax expense

	2014 $'000	2013[1] $'000
Current tax	**4,994**	5,301
Deferred tax	**(224)**	(1,734)
(Over) / under provision in prior years	**(121)**	74
	4,649	3,641
Deferred income tax credit included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets (Note 17)	**329**	217
(Decrease) / increase in deferred tax liabilities (Note 23)	**(553)**	(1,951)
	(224)	(1,734)

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

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

	2014 $'000	2013 $'000
Total operating loss before tax	**(61,908)**	(29,678)
Prima facie income tax at 30%	**(18,572)**	(8,904)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of intangible assets	**23,473**	13,500
Non-assessable contingent consideration adjustment	**-**	(1,050)
Tax rate differences in overseas entities	**(469)**	(354)
Share-based payments expense	**38**	50
(Over)/under provision in prior years	**(121)**	74
Other	**300**	325
Income tax expense	**4,649**	3,641

(c) Amounts recognised directly in equity

	2014 $'000	2013 $'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)	**(66)**	(221)

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

	2014	2013
Cash flow hedges (Notes 17, 23)	**(2,377)**	2,154

NOTE 9. KEY MANAGEMENT PERSONNEL

	2014 $	2013 $
Key management personnel compensation		
Short-term employee benefits	**2,057,394**	2,044,895
Post-employment benefits	**175,309**	149,170
Long-term benefits	**17,470**	29,906
Share-based payments	**115,026**	90,642
	2,365,199	2,314,613

Detailed remuneration disclosures are provided in the Remuneration Report contained within the Directors' Report, which is on pages 35 to 44 of the Annual 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, and relating to remuneration and to transactions concerning options and shares.

NOTE 10. CASH AND CASH EQUIVALENTS

	2014 $'000	2013 $'000
Cash on hand	**12**	10
Cash at bank and on deposit (at call)	**4,108**	1,656
	4,120	1,666
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	**4,120**	1,666
Less: Bank overdrafts (Note 19)	**(398)**	(351)
Cash balance per statement of cash flows	**3,722**	1,315

NOTE 11. TRADE AND OTHER RECEIVABLES

	2014 $'000	2013 $'000
Trade receivables	**59,527**	53,670
Provision for impairment	**(189)**	(62)
	59,338	53,608
Other receivables/prepayments	**3,934**	3,154
	63,272	56,762
Movements in the provision for impairment of trade receivables are as follows:		
Balance at 1 July	**(62)**	(25)
Provisions for impairment recognised during the year	**(127)**	-
Written-off during the year as uncollectible	**-**	14
Acquired through business combination	**-**	(50)
Foreign exchange	**-**	(1)
	(189)	(62)

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 receivable, their carrying amounts is 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.

	2014 $'000	2013 $'000
Neither past due nor impaired	**36,783**	36,636
Past due, but not impaired:		
– less than 30 days	**14,869**	13,045
– 30 to 59 days	**4,092**	3,337
– 60 to 89 days	**1,788**	482
– 90 to 119 days	**1,168**	78
– 120 days or more	**638**	30
	59,338	53,608
Impaired	**189**	62
Gross carrying amount	**59,527**	53,670
Provision for impairment	**(189)**	(62)
Net carrying amount	**59,338**	53,608

Credit risk concentration

Two external customers represent $15,274,000 (2013: $12,350,000) and $14,371,000 (2013: $14,059,000) of the closing receivables balance. These debtor balances are in relation to the Australian business.

NOTE 12. INVENTORIES

	2014 $'000	2013[1] $'000
Raw materials	**3,095**	2,141
Finished goods	**40,437**	57,921
Stock in transit	**6,698**	9,915
	50,230	69,977
Provision for inventory obsolescence	**(4,741)**	(2,400)
	45,489	67,577

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

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

Inventory recognised as expenses during the year ended 30 June 2014 amounted to $205,685,000 (2013: $163,823,000). At 30 June 2014 the Group has transferred $26,136,000 of inventories to assets held for sale. Refer to Note 14 for further information.

NOTE 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:

	2014 $'000	2013 $'000
Current assets		
Forward foreign exchange contracts — cash flow hedges	-	793
Foreign currency options — cash flow hedges	-	4,465
Total current derivative financial instrument assets	-	5,258
Current liabilities		
Interest rate contracts — cash flow hedges	834	764
Forward foreign exchange contracts — cash flow hedges	1,952	-
Foreign currency options — cash flow hedges	1,068	50
Total current derivative financial instrument liabilities	3,854	814
Non-current liabilities		
Interest rate contracts — cash flow hedges	978	1,247

(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).

(i) 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 rarely more than eight months.

(ii) 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 2014 to February 2015.

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.

(iii) 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.

NOTE 14. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

	2014 $'000	2013 $'000
Inventories	**26,136**	-
Property, plant and equipment	**428**	-
Intangible assets	**26,409**	-
Deferred tax assets	**308**	-
Total assets classified as held for sale	**53,281**	-
Employee benefits	**1,027**	-
Deferred tax liabilities	**6,847**	-
Total liabilities directly associated with assets classified as held for sale	**7,874**	-

During the current period the Directors decided to pursue a sale of the Group's Household Consumables and Housewares businesses. These businesses have been presented as held for sale on an individual basis. The Directors expect to complete the sales within the financial year ending 30 June 2015.

In accordance with Australian Accounting Standards, as the Directors now expect to recover the identified assets and liabilities associated with these businesses through sale, these items have been disclosed separately as being held for sale within the Group's 30 June 2014 consolidated balance sheet.

The assets classified as held for sale have been measured at the lower of cost and fair value less costs to sell. No impairment writedowns were required as a result of the reclassification and re measurement of these items.

These assets are presented within the total assets of the Australian business segment in Note 7.

NOTE 15. PROPERTY, PLANT AND EQUIPMENT

	2014 $'000	2013 $'000
Leasehold improvements:		
At cost	**295**	274
Accumulated amortisation	**(232)**	(211)
Total leasehold improvements	**63**	63
Plant and equipment:		
At cost	**31,111**	31,097
Accumulated depreciation	**(25,134)**	(23,493)
Total plant and equipment	**5,977**	7,604
Total property, plant and equipment	**6,040**	7,667

(a) Reconciliations

	LEASEHOLD IMPROVEMENTS $'000	PLANT AND EQUIPMENT $'000	TOTAL $'000
Carrying amount at 1 July 2012	**69**	**7,007**	**7,076**
Additions	-	2,399	2,399
Acquisition of businesses	-	680	680
Disposals	-	(117)	(117)
Depreciation expense	(11)	(2,427)	(2,438)
Foreign currency exchange differences	5	62	67
Carrying amount at 30 June 2013	**63**	**7,604**	**7,667**
Additions	5	1,400	1,405
Acquisition of businesses	-	5	5
Assets classified as held for sale	-	(428)	(428)
Disposals	-	(200)	(200)
Depreciation expense	(11)	(2,491)	(2,502)
Foreign currency exchange differences	6	87	93
Carrying amount at 30 June 2014	**63**	**5,977**	**6,040**

NOTE 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 30 June 2014 the Group has transferred $428,000 of fixed assets ($1,352,000 cost, net of $924,000 accumulated depreciation) to assets held for sale. Refer to Note 14 for further information.

(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.

NOTE 16. INTANGIBLE ASSETS

	2014 $'000	2013 $'000
Goodwill	**37,464**	124,641
Other intangibles	**6,194**	5,066
Accumulated amortisation	**(4,651)**	(4,258)
	1,543	808
Brandnames	**49,259**	42,655
Total intangible assets	**88,266**	**168,104**

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:

	GOODWILL $'000	OTHER INTANGIBLES $'000	BRANDNAMES $'000	TOTAL $'000
Carrying amount at 30 June 2012	**137,992**	**430**	**45,564**	**183,986**
Additions	453	514	579	1,546
Acquisition of businesses	32,274	115	-	32,389
Transfers	(1,512)	-	1,512	-
Impairment charge	(45,000)	-	(5,000)	(50,000)
Amortisation charge	-	(251)	-	(251)
Foreign currency exchange differences	434	-	-	434
Carrying amount at 30 June 2013	**124,641**	**808**	**42,655**	**168,104**
Additions	-	1,128	-	1,128
Acquisition of businesses/brands	448	-	23,177	23,625
Transfers/adjustments	(9,377)	-	(14,816)	(24,193)
Disposals	(460)	-	-	(460)
Impairment charge	(78,243)	-	(1,757)	(80,000)
Amortisation charge	-	(393)	-	(393)
Foreign currency exchange differences	455	-	-	455
Carrying amount at 30 June 2014	**37,464**	**1,543**	**49,259**	**88,266**

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 year the Group received a $213,000 completion adjustment from the former owners of the Home Appliances business and the associated acquisition accounting was finalised. This resulted in $9,080,000 of intangible assets being transferred from goodwill and being separately recognised as brandname assets. In addition, a deferred tax liability of $2,724,000 was recognised in relation to the brandname assets. These adjustments resulted in a net increase in intangible assets of $2,511,000 (goodwill: decreased $6,569,000; brandnames: increased $9,080,000).

On 31 March 2014 the Group sold its Crown glassware business for $2,824,000. The assets disposed included $460,000 of goodwill. An impairment loss of $3,761,000 was recognised against goodwill and brandnames at 31 December 2013 due to the pending sale. The finalisation of the sale did not result in any further writedowns being required.

At 30 June 2014 the Group has transferred $2,808,000 of goodwill and $23,601,000 of brandnames to assets held for sale. Refer to Note 14 for further information.

Impairment Testing

Goodwill

Goodwill is allocated to the following cash generating units:

	2014 $'000	2013 $'000
Australia (excluding Home Appliances)	**13,042**	94,160
Home Appliances	**19,393**	25,514
New Zealand	**5,029**	4,967
	37,464	124,641

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 2014			30 JUNE 2013		
	ESTIMATED GROWTH RATES YEAR 2 ONWARDS	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%	11.5%	15.1%	3.0%	11.5%	15.1%
Home Appliances	3.0%	11.5%	15.1%	3.0%	11.5%	15.1%
New Zealand	2.0%	11.5%	14.7%	3.0%	11.5%	14.7%

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 (excl Home Appliances) cash-generating unit, arising from profit optimisation initiatives, new product launches and the full year impact of acquisitions and agency agreements. At 30 June 2014, 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 $44,579,000 (June 2013: Nil). The surplus amount within the Home Appliances calculation is $16,090,000 (June 2013: $9,193,000). The surplus amount within the New Zealand calculation is NZD$10,743,000 (June 2013: NZD$14,978,000)

Impairment charge

During the current year an impairment charge of $80,000,000 was recognised against the Australian cash generating unit (excluding Home Appliances), with $78,243,000 of this charge being recognised against goodwill and the remaining $1,757,000 being recognised against certain brandnames. 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 reduced earnings being generated by the Group's Australian operations (excluding Home Appliances).

This impairment charge is included within the Australian 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.

During the prior year an impairment charge of $50,000,000 was recognised against the Australian cash generating unit (excluding Home Appliances), with $45,000,000 of this charge being recognised against goodwill and the remaining $5,000,000 being recognised against certain brandnames. The recoverable amount used in the calculations was based on a value-in-use model. The impairment charge was a direct result of the reduced earnings being generated by the Group's Australian operations (excluding Home Appliances).

The impairment charge is included within the Australian reportable segment disclosed within Note 7 Segment Information. The discount rate and other key assumptions used in the value-in-use calculation are disclosed above.

NOTE 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 Australian (excluding Home Appliances) cash generating unit were to be 10.0% below the current estimated EBIT the surplus within the calculation would reduce to $23,794,000.

If the post-tax discount rate used in the value-in-use calculation for the Australian (excluding Home Appliances) cash generating unit was to be 1.0 percentage point higher than management's estimate (12.5% instead of 11.5%) the surplus within the calculation would reduce to $25,438,000.

If the terminal year growth rate used in the value-in-use calculation for the Australian (excluding Home Appliances) cash generating unit was to be 1.0 percentage point lower than management's estimate (1.0% instead of 2.0%) the surplus within the calculation would reduce to $29,802,000.

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 the surplus within the calculation would reduce to $10,263,000.

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 (12.5% instead of 11.5%) the surplus within the calculation would reduce to $10,169,000.

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 (2.0% instead of 3.0%) the surplus within the calculation would reduce to $11,421,000.

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 10.0% below the current estimated EBIT the surplus within the calculation would reduce to NZ$7,876,000.

If the post-tax discount rate used in the value-in-use calculation for the New Zealand cash generating unit was to be 1.0 percentage point higher than management's estimate (12.5% instead of 11.5%) the surplus within the calculation would reduce to NZ$7,981,000.

If the terminal year growth rate used in the value-in-use calculation for the New Zealand cash generating unit was to be 1.0 percentage point lower than management's estimate (1.0% instead of 2.0%) the surplus within the calculation would reduce to NZ$8,628,000.

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.

	2014	2013
Estimated growth rates	1.0% - 3.0%	3.0%
Post-tax discount rate	11.5%	11.5%
Pre-tax discount rate equivalent	15.1%	15.1%

At 30 June 2014, the total carrying value of brandnames tested using the value-in-use method was $49,259,000 (2013: $40,898,000). The value-in-use calculations for these brandnames exceeded their carrying values.

In the current year the fair value less costs to sell calculation relates only to the brandnames that are classified as held for sale at 30 June 2014 and is based on expected disposal calculations. Based on these calculations all brandnames classified as held for sale at 30 June 2014 are considered recoverable. The total carrying value of brandnames tested using this method was $23,601,000 (2013:Nil).

In the prior year the fair value less costs to sell calculation was determined using a 'relief from royalty' approach. The 'relief from royalty' method assumes that if a business did not own the identifiable brandname under consideration it would have to pay a royalty to the owners of the brandname for its use. The calculation is prepared using a discounted cash flow analysis of the future royalty stream which is based on financial budgets/forecasts covering a one year period. The calculation assumed sales growth rates, for those brands tested using this method, beyond the projected period of 0.0% to 3.0% and a post-tax discount rate of 11.5%, the equivalent pre-tax discount rate equating to 15.1%.

At 30 June 2013, the total carrying value of brandnames tested using the 'relief from royalty' method was $6,757,000.

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, for the brands tested using this method, an impairment charge of $1,394,000 (2013: Nil) would arise.

If the year one contribution margin percentages were 5.0 percentage points below the current estimates used in the value-in-use calculations, for the brands tested using this method, an impairment charge of $8,982,000 (2013: $6,859,000) would arise.

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, for the brands tested using this method, no brand impairment would arise (2013: Nil).

If the estimated consideration to be received by the Group associated with the proposed disposals of the Household Consumable and Housewares businesses were to be 10% below management's current estimate then a brand impairment of approximately $172,000 would arise.

NOTE 17. DEFERRED TAX ASSETS

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
Cash flow hedges	**1,423**	618
Employee benefits	**1,686**	1,892
Depreciation	**1,281**	1,162
Inventory obsolescence	**364**	697
Transaction costs arising on share issues	**179**	254
Trade receivables impairment	**54**	18
Claims and returns	**54**	61
Warranty	**522**	246
Other provisions and accruals	**419**	560
Deferred gain	**28**	56
License fees	**-**	33
Total temporary differences	**6,010**	5,597

Movements

	CASH FLOW HEDGES $'000	EMPLOYEE BENEFITS $'000	DEPRECIA-TION $'000	OBSOLES-CENCE $'000	TRANSACTION COSTS ARISING ON SHARE ISSUES $'000	OTHER $'000	TOTAL $'000
Opening balance at 1 July 2012	**1,236**	**1,800**	**991**	**575**	**92**	**768**	**5,462**
Credited/(charged) to profit or loss (Note 8)	(484)	(72)	119	182	-	38	(217)
Credited/(charged) to equity	(134)	-	-	-	221	-	87
Amortisation of transaction costs on share issues	-	-	-	-	(59)	-	(59)
Acquired in business combinations (Note 31)	-	120	-	54	-	235	409
(Over)/under provision in prior years	-	38	52	(120)	-	(70)	(100)
Foreign currency exchange differences	-	6	-	6	-	3	15
Closing balance at 30 June 2013	**618**	**1,892**	**1,162**	**697**	**254**	**974**	**5,597**
Credited/(charged) to profit or loss (Note 8)	-	30	(30)	(80)	-	(249)	(329)
Credited/(charged) to equity	805	-	-	-	66	-	871
Amortisation of transaction costs on share issues	-	-	-	-	(110)	-	(110)
Acquired in business combinations (Note 31)	-	39	-	-	-	332	371
Transfers	-	(318)	-	-	-	43	(275)
(Over)/under provision in prior years	-	39	144	(255)	(31)	(25)	(128)
Foreign currency exchange differences	-	4	5	2	-	2	13
Closing balance at 30 June 2014	**1,423**	**1,686**	**1,281**	**364**	**179**	**1,077**	**6,010**

	2014 $'000	2013 $'000
Deferred tax assets to be recovered within 12 months	**3,944**	3,384
Deferred tax assets to be recovered after more than 12 months	**2,066**	2,213
	6,010	5,597

NOTE 18. TRADE AND OTHER PAYABLES

	2014 $'000	2013 $'000
Trade payables	**30,886**	24,637
Other payables	**19,741**	14,237
	50,627	38,874

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

NOTE 19. BORROWINGS - CURRENT

	2014 $'000	2013 $'000
Bank overdraft	**398**	351
Bank loans	**2,000**	2,000
Other borrowings	**571**	412
Debt issue costs	**(149)**	(359)
	2,820	2,404
Secured Liabilities		
Bank overdraft	**398**	351
Bank loans	**2,000**	2,000
	2,398	2,351

The fair values of the Group's 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.

Refer to Note 21 for further information on the Group's financing facilities.

NOTE 20. PROVISIONS - CURRENT

	2014 $'000	2013 $'000
Employee entitlements	**4,910**	5,469
Contingent consideration	**12,885**	9,040
Claims, returns and warranty	**1,920**	1,032
Employee incentives	**392**	312
Other	**257**	112
	20,364	15,965

(a) Employee entitlements

Amounts reflect employees' entitlement to take accrued annual leave and long service leave during the next 12 months. However, 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.

(d) Employee incentives

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

(e) 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	EMPLOYEE INCENTIVES $'000	OTHER $'000
Carrying amount at 1 July 2013	**9,040**	**1,032**	**312**	**112**
Additional provisions charged to profit or loss	-	1,423	417	261
Provision created / acquired through asset acquisitions / business combinations (Note 31)	4,140	1,075	-	-
Transfers (Note 2(e))	(295)	-	-	-
Unused amounts reversed to profit or loss	-	-	(13)	-
Payments	-	(1,611)	(325)	(116)
Foreign currency exchange differences	-	1	1	-
Carrying amount at 30 June 2014	**12,885**	**1,920**	**392**	**257**

NOTE 21. BORROWINGS — NON-CURRENT

	2014 $'000	2013 $'000
Secured liabilities		
Bank loans - secured	**76,000**	69,000
Debt issue costs	**-**	(149)
	76,000	68,851

The Group's facilities are denominated in Australian dollars and variable interest rates apply (the Group does however hedge its exposure to interest rates for no less than 60% of the term debt facilities). The facilities provide an amortising core debt facility of $69.0 million (originally $81.0 million, maturing in December 2015), an acquisition facility of $15.0 million (expiring at the same time as the core debt facility), a working capital facility of $27.0 million (1 year term subject to annual review) and an additional seasonal working capital facility of $4.0 million (1 year term subject to annual review). The facilities have financial covenants attached relating to net leverage ratio, cash dividend payout ratio, EBIT interest coverage, gearing ratio, maximum permitted financial indebtedness limit and working capital ratio.

The core debt facility amortises by $4.0 million each May and November up until May 2015 at which time the maximum available core debt facility will be $61.0 million. At 30 June 2014 the core debt facility limit was $69.0 million.

The fair value of the Group's non-current borrowing is not materially different to its carrying amount since the interest payable on these borrowings is at current market rates.

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

Security for borrowings

The Group continues to provide security to its financiers to secure bank overdraft, bank loan, bank bill and trade finance facilities. 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.

NOTE 21. BORROWINGS — NON-CURRENT (CONTINUED)

Assets pledged as security

	2014 $'000	2013 $'000
Fixed charge		
Property, plant and equipment	**6,425**	7,603
Intangible assets	**113,804**	167,228
Total non-current assets pledged as security	**120,229**	174,831
The following current assets are also pledged as security:		
Fixed charge		
Receivables	**58,514**	52,168
Floating charge		
Cash	**3,520**	1,272
Inventories	**70,071**	66,274
Receivables	**2,501**	2,398
Derivative financial instruments	**-**	5,258
Total current assets pledged as security	**134,606**	127,370
Total assets pledged as security	**254,835**	302,201

The assets pledged as security include the assets disclosed as held for sale as at 30 June 2014. Refer to Note 14 for further information.

NOTE 22. PROVISIONS — NON-CURRENT

	2014 $'000	2013 $'000
Employee entitlements	863	949

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

NOTE 23. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

	2014 $'000	2013[1] $'000
Brandnames	**7,821**	12,471
Cash flow hedges	**-**	1,655
Prepayments	**17**	13
Depreciation	**6**	7
Other	**58**	-
Total temporary differences	**7,902**	14,146
Deferred tax liabilities to be settled within 12 months	**74**	1,606
Deferred tax liabilities to be settled after more than 12 months	**7,828**	12,540
	7,902	14,146

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

Movements

	BRANDNAMES $'000	CASH FLOW HEDGES $'000	OTHER $'000	TOTAL $'000
Consolidated				
Closing balance at 30 June 2012[1]	13,518	129	28	13,675
(Credited) / charged to profit or loss (Note 8)	(1,500)	(496)	45	(1,951)
Charged to equity	-	2,020	-	2,020
Transfers	453	-	-	453
Over provision in prior years	-	-	(53)	(53)
Foreign exchange	-	2	-	2
Closing balance at 30 June 2013[1]	**12,471**	**1,655**	**20**	**14,146**
(Credited) / charged to profit or loss (Note 8)	(527)	(82)	56	(553)
Credited to equity	-	(1,572)	-	(1,572)
Transfers	(4,123)	-	-	(4,123)
Over provision in prior years	-	-	4	4
Foreign exchange	-	(1)	1	-
Closing balance at 30 June 2014	**7,821**	**-**	**81**	**7,902**

A deferred tax liability of $2,724,000 was recognised during the year in relation to the brandname assets as part of the completion of the purchase price allocation of Home Appliances. This amount is included within the transfers line in the above table.

At 30 June 2014 the Group has transferred $6,847,000 of deferred tax liabilities to liabilities directly associated with assets held for sale. This amount is included within the transfers line the above table. Refer to Note 14 for further information.

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

NOTE 24. CONTRIBUTED EQUITY

	2014 $'000	2013 $'000
Issued and paid up capital:		
95,434,645 (June 2013: 89,294,198) ordinary shares — fully paid	147,003	139,117

Movements in ordinary share capital

DATE	DETAILS	NUMBER OF SHARES	PRICE $	$'000
1 July 2013	Opening balance	89,294,198		139,117
12 November 2013	Shares issued - Dividend reinvestment plan for 30 June 2013 final dividend	1,088,243	1.33	1,447
12 November 2013	Shares issued — Dividend reinvestment plan underwriting arrangement	3,611,940	1.33	4,804
10 April 2014	Shares issued - Dividend reinvestment plan for 31 December 2013 interim dividend	1,440,264	1.19	1,713
	Transaction costs associated with share issues	-		(111)
	Tax effect of share issue transaction costs recognised directly in equity	-		33
30 June 2014	**Closing Balance**	**95,434,645**		**147,003**

NOTE 24. CONTRIBUTED EQUITY (CONTINUED)

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 option and performance rights plans, including details of options and 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.

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.

	2014 $'000	2013[1] $'000
Total borrowings (Note 19, 21)	**78,820**	71,255
Less: Cash assets (Note 10)	**(4,120)**	(1,666)
Net debt	**74,700**	69,589
Total equity	**94,544**	169,092
Total capital	**169,244**	238,681
Gearing ratio	**44.1%**	29.2%

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

Under the terms of the borrowing facilities at 30 June 2014 the Group is required to comply with the following key financial covenants:

- The gearing ratio must be not more than 55%;
- The leverage ratio must be not more than 2.60;
- The interest cover ratio must be more than 4.00;
- The working capital ratio must be not more than 50.0%; and
- Total financial indebtedness is not to exceed $175 million.

During the year, at 31 December 2013, the Group was required to reclassify $80,000,000 of the Group's borrowings from non-current to current following a breach of the gearing ratio covenant as the Group's gearing ratio at 31 December 2013 of 48% was above the then 40% covenant limit. The Group's gearing ratio exceeded the covenant as a direct result of the $80,000,000 impairment charge booked against the Group's intangible assets at 31 December 2013. Had this impairment charge not been required the Group's gearing ratio would have been 34%. Following the covenant breach the Group obtained a waiver from its financiers for the covenant test at 31 December 2013. The waiver also amended the gearing covenant limit from 40% to 55% for the remainder of the debt facility term. At 30 June 2014 the Group has complied with all financial covenants associated with its borrowings.

The Group complied with all other financial covenants of its borrowing facilities during the prior year.

NOTE 25. RESERVES AND RETAINED PROFITS

(a) Reserves

	2014 $'000	2013[1] $'000
Hedging reserve — cash flow hedges	**(3,417)**	2,161
Share-based payments reserve	**1,409**	1,281
Foreign currency translation reserve	**(577)**	(2,041)
	(2,585)	1,401
Hedging reserve — cash flow hedges:		
Balance 1 July	**2,161**	(2,885)
Revaluation — gross	**(3,048)**	6,316
Deferred tax (Note 17, 23)	**912**	(1,889)
Transfer to cost of sales - gross	**(5,096)**	(86)
Deferred tax (Note 17, 23)	**1,522**	26
Transfer to finance costs - gross	**189**	970
Deferred tax (Note 17, 23)	**(57)**	(291)
Balance 30 June	**(3,417)**	2,161
Share-based payments reserve:		
Balance 1 July	**1,281**	1,116
Share-based payments expense	**128**	165
Balance 30 June	**1,409**	1,281
Foreign currency translation reserve:		
Balance 1 July	**(2,041)**	(3,905)
Currency translation differences arising during the year	**1,464**	1,864
Balance 30 June	**(577)**	(2,041)

(b) (Accumulated losses) / retained earnings

	2014 $'000	2013[1] $'000
Balance 1 July	**28,574**	75,362
Loss after tax	**(66,557)**	(33,319)
Dividends provided for or paid	**(11,891)**	(13,469)
Balance 30 June	**(49,874)**	28,574

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

(c) Nature and purpose of reserves

(i) 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.

(ii) 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.

(iii) 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)(iii). The reserve is recognised in profit or loss when the net investment is disposed of.

NOTE 26. SHARE-BASED PAYMENTS

(a) Employee Performance Rights Plan

During the current year 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 cumulative 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.

On 20 November 2013, subsequent to shareholder approval at the Annual General Meeting, the Group issued 416,000 performance rights to the Managing Director and certain other senior executives. 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 will be determined proportionately on a straight line basis based on the cumulative annual growth rate (CAGR) of the Group's earnings per share (EPS) over a two and three year period, with 50% of rights eligible to vest at 16 September 2015 and the remaining 50% of rights eligible to vest at 16 September 2016. 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:

	2014		2013	
	AVERAGE FAIR VALUE AT GRANT DATE	NUMBER OF RIGHTS	AVERAGE FAIR VALUE AT GRANT DATE	NUMBER OF RIGHTS
As at 1 July	-	-	-	-
Granted during the year	$1.26	416,000	-	-
As at 30 June	**$1.26**	**416,000**	**-**	**-**
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:

		NUMBER OF RIGHTS	
GRANT DATE	VESTING DATE	30 JUNE 2014	30 JUNE 2013
20 November 2013	16 September 2015	208,000	-
20 November 2013	16 September 2016	208,000	-
Total		**416,000**	**-**

(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 performance rights carry no dividend or voting rights.

Options Granted - 2011 Financial Year

On 1 April 2011 the Company granted 1,050,000 options over ordinary shares in the Company to senior executives of the Group, including key management personnel, under the McPherson's Limited Share / Option Purchase Plan. The options form part of the executives' and key management persons' remuneration arrangements and effect remuneration in this reporting period. The options were issued on the following terms:

					TERMS AND CONDITIONS OF GRANT				
						DATE EXERCISABLE			
NUMBER GRANTED	GRANT DATE[1]	EXPIRY DATE	VALUE PER OPTION AT GRANT DATE[2]	AMOUNT PAID AT GRANT DATE	EXERCISE PRICE[2]	FROM	TO	SHARE PRICE CRITERIA	SHAREHOLDER RETURN CRITERIA
1,050,000	01-Apr-11	31-Mar-16	$0.57	-	$3.61	01-Apr-13	31-Mar-16	Note 2	Note 3

Notes:

1. The grant date for option valuation purposes is the option issue date of 1 April 2011.
2. The share price must equal or exceed the exercise price of $3.61 for a continuous period of 20 trading days (measured on a weighted average basis) before any assessment date.
3. Providing the above share price criterion is satisfied, total shareholder return (being a function of share price growth and dividend payments and measured on a compound basis) must exceed either:
   a. the percentage change in the S&P/ASX Small Ordinaries Index from the issue date to the assessment date; or
   b. 9% per annum, compounded from the issue date to the assessment date, in which case the number of options that vest will increase proportionately from a total shareholder return (compounded) of 9% (where no options will vest), to a total shareholder return of 11% (where all the options will vest).
4. Providing the performance criteria are satisfied, options may be exercised at any time between 1 April 2013 and 31 March 2016.
5. 425,000 of the options granted were to senior executives who are included within the key management personnel disclosures in the current year remuneration report.

All of the above options have been cancelled, either due to the executive leaving the Group, or as part of the introduction of the Group's new Performance Rights Plan which was introduced during the current year.

Options Granted - 2010 Financial Year

On 9 July 2009 the Company announced that it proposed to grant 1.5 million options over ordinary shares in the Company to the Managing Director designate, Mr Paul Maguire, under the McPherson's Limited Share / Option Purchase Plan. The grant was subject to the approval of shareholders which was given at the McPherson's Limited Annual General Meeting on 13 November 2009 following Mr Maguire's appointment as Managing Director on 1 November 2009. The options form part of Mr Maguire's remuneration arrangements. The options were granted and are exercisable in four equal tranches of 375,000. Details of the options outstanding at 30 June 2014 are set out below:

					TERMS AND CONDITIONS OF GRANT				
						DATE EXERCISABLE			
NUMBER GRANTED	GRANT DATE[1]	EXPIRY DATE	VALUE PER OPTION AT GRANT DATE[2]	AMOUNT PAID AT GRANT DATE	EXERCISE PRICE[2]	FROM	TO	SHARE PRICE CRITERIA	SHAREHOLDER RETURN CRITERIA
375,000	06-Jul-09	06-Jul-14	$1.16	$3,750	$1.64	06-Jul-11	06-Jul-14	Note 2	Note 3
375,000	06-Jul-09	06-Jan-15	$1.10	$3,750	$1.75	06-Jan-12	06-Jan-15	Note 2	Note 3

Notes:

1. The issue of the options was subject to shareholder approval. The options were initially granted on 6 July 2009 and were formally approved at a General Meeting of shareholders on 13 November 2009. The grant date for option valuation purposes is the shareholder approval date of 13 November 2009.
2. The share price must exceed the relevant exercise price for a continuous period of 40 trading days.
3. Total shareholder return must exceed 15% per annum for the period from the grant date to the relevant exercise date.

Set out below is a summary of movements in options granted under the plan:

NOTE 26. SHARE-BASED PAYMENTS (CONTINUED)

	2014		2013	
	AVERAGE EXERCISE PRICE PER SHARE OPTION	NUMBER OF OPTIONS	AVERAGE EXERCISE PRICE PER SHARE OPTION	NUMBER OF OPTIONS
As at 1 July	**$2.67**	**1,525,000**	**$2.67**	**1,525,000**
Cancelled during the year	$3.61	(775,000)	-	-
As at 30 June	**$1.70**	**750,000**	**$2.67**	**1,525,000**
Vested and exercisable	-	-	-	-

Share options outstanding at the end of the year have the following expiry date and exercise prices:

			NUMBER OF OPTIONS	
GRANT DATE	EXPIRY DATE	EXERCISE PRICE	30 JUNE 2014	30 JUNE 2013
6 July 2009	6 July 2014	$1.64	375,000	375,000
6 July 2009	6 January 2015	$1.75	375,000	375,000
1 April 2011	31 March 2016	$3.61	-	775,000
Total			**750,000**	**1,525,000**

Fair values at grant date were determined using a modified Black-Scholes binomial option pricing model that took into account the grant date, the exercise price, the term of the option, the vesting and performance criteria, the non-tradable nature of the option, the share price at grant date, the expected price volatility of the underlying share and the risk-free interest rate for the term of the option.

Expenses arising from share-based payment transactions

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

	2014 $'000	2013 $'000
Options issued under the employee option plan	**-**	165
Performance rights issued under the employee performance rights plan	**128**	-
	128	165

NOTE 27. CONTRACTUAL COMMITMENTS FOR EXPENDITURE

(a) Capital commitments

	2014 $'000	2013 $'000
Aggregate capital expenditure contracted for at balance date, but not provided for in the accounts, due:		
Not later than one year	**20**	153

(b) Lease commitments

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

	2014 $'000	2013 $'000
Operating leases		
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	**6,535**	6,238
Later than one year but not later than five years	**18,169**	17,597
Later than five years	**10,774**	13,982
	35,478	37,817

NOTE 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.

NOTE 29. AUDITORS' REMUNERATION

	2014 $	2013 $
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:		
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the Corporations Act 2001	**297,000**	290,000
Overseas affiliates of PricewaterhouseCoopers Australian firm	**44,200**	42,000
Non PricewaterhouseCoopers audit firms	**27,702**	25,274
Total remuneration for audit services	**368,902**	357,274
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Review of rent certificates	**6,000**	5,800
Overseas affiliates of PricewaterhouseCoopers Australian firm:		
Financial statements preparation	**3,000**	3,000
Non PricewaterhouseCoopers audit firms:		
Other assurance services - Hong Kong	**-**	16,849
Total remuneration for other assurance services	**9,000**	25,649
Other services		
1. Taxation and other services		
PricewaterhouseCoopers Australian firm:		
Tax advice relating to employee performance rights plan	**9,500**	-
Consulting services associated with remuneration review	**-**	24,000
Consulting services associated with due diligence review	**39,660**	65,000
Total remuneration for taxation and other services	**49,160**	89,000
Total auditor's remuneration	**427,062**	471,923

NOTE 30. EARNINGS PER SHARE

	2014 CENTS	2013 CENTS
Basic loss per share	**(71.9)**	(43.2)
Diluted loss per share	**(71.9)**	(43.2)
Basic earnings per share excluding significant items	**15.9**	16.9

Reconciliation of earnings used in calculating earnings per share

	2014 $'000	2013 $'000
Basic and diluted earnings per share		
Profit for the period (excluding significant items)	**14,734**	13,057
Significant items, net of tax	**(81,291)**	(46,376)
Loss for the period	**(66,557)**	(33,319)

Weighted average number of shares used as the denominator

	2014 NUMBER	2013 NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**92,575,577**	77,203,558
Potential ordinary shares	**-**	-
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**92,575,577**	77,203,558
Options and performance rights that are not dilutive and are therefore not included in the calculation of diluted earnings per share	**1,166,000**	1,525,000

Information concerning the classification of securities

Options and performance rights

Options and 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 options and performance rights have not been included in the determination of basic earnings per share.

The 750,000 outstanding options and 416,000 outstanding performance rights are not included in the calculation of diluted earnings per share because they are anti dilutive for the year ended 30 June 2014. These options and rights could potentially dilute basic earnings per share in the future.

NOTE 31. ACQUISITIONS

Current Period

Maseur

On 1 July 2013, the Group's Australian consumer products business acquired the brandname and associated assets of Maseur, a leading supplier of quality comfort footwear. Details of the purchase consideration and the net assets acquired are as follows:

	$'000
Purchase consideration	
Total purchase consideration — cash paid	5,257

The assets acquired were as follows:

Inventories	206
Brandnames	5,051
Total assets acquired	**5,257**
Purchase consideration — cash outflow	
Cash consideration paid	5,257
Outflow of cash to acquire business assets — investing activities	**5,257**

Think Appliances, the Baumatic brandname and Lemair

On 29 October 2013, the Group's Home Appliance business acquired the business assets of Think Appliances, a supplier of quality kitchen appliances including upright cookers, ovens, cooktops, rangehoods, dishwashers, microwaves, coffee machines and warming drawers. The Group also acquired the Baumatic brandname as part of this transaction, which was previously an agency relationship for the Think Appliances business. On 28 March 2014 the Group's Home Appliances business acquired the business assets of Tecma Lemair Pty Ltd, a supplier of quality refrigerators, freezers and small washing machines. A total consideration of $2,908,000 was paid for these three acquisitions.

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

	$'000
Purchase consideration	
Total purchase consideration - cash paid	2,908

The assets and liabilities recognised as a result of these acquisitions were as follows:

	$'000
Inventories	1,862
Plant and equipment	5
Brandnames	1,403
Deferred tax assets	348
Employee entitlements	(83)
Provision for warranty	(1,075)
Net identifiable assets acquired	**2,460**
Add: Goodwill	448
Net assets acquired	**2,908**
Purchase consideration — cash outflow	
Cash consideration paid	2,908
Outflow of cash to acquire business assets — investing activities	**2,908**

NOTE 31. ACQUISITIONS (CONTINUED)

The goodwill recognised is attributable to both the future earnings prospects of the acquisition and the synergies expected to be achieved from integrating this business into the Group's existing business. It will not be deductible for tax purposes.

(i) Acquisition and transition related costs

Acquisition and transition related costs of $1,019,000 are included within other expenses in profit or loss and in operating cash flows in the statement of cash flows.

(ii) Revenue and profit contribution

The Think Appliances, Baumatic brandname and Lemair brandname contributed revenues of $15,449,000 to the Group for the period from their acquisition date to 30 June 2014. Net profit generated from these acquisitions for this period has not been separately disclosed as it is impracticable to calculate an accurate amount for this given these acquisitions were completely integrated into the Group's Home Appliances operation.

Dr LeWinn's and Revitanail

On 31 October 2013, the Group's Australian consumer products business acquired the brandnames and associated assets of iconic skincare brand Dr LeWinn's and beauty treatment brand Revitanail.

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

	$'000
Purchase consideration	
Cash paid	15,489
Contingent consideration	4,140
Total purchase consideration	**19,629**
The assets and liabilities acquired were as follows:	
Inventories	2,932
Brandnames	16,723
Deferred tax assets	13
Employee entitlements	(39)
Net assets acquired	**19,629**
Purchase consideration — cash outflow	
Total consideration for acquisition accounting purposes	19,629
Less: Contingent consideration	(4,140)
Outflow of cash to acquire business assets — investing activities	**15,489**

(i) Contingent consideration

The Dr LeWinn's / Revitanail acquisition agreement includes a contingent consideration arrangement. Under this arrangement the Group may be required to pay the former owner a potential additional cash payment depending on the level of sales and adjusted net contribution generated by these brands over the twelve month period from acquisition date to 31 October 2014. The expected range of the potential additional payment that the Group may be required to make under this arrangement is between $0 and $13,500,000.

Where an acquisition agreement includes a contingent consideration arrangement, the Group is required to estimate, at acquisition date, the amount of contingent consideration expected to be paid. This amount then forms part of the consideration amount used for acquisition accounting purposes. Based on the facts, circumstances and forecasts that existed at acquisition date, the Group estimated that the contingent consideration payment expected to be paid was $4,140,000.

As at 30 June 2014 the Group was required to reassess the amount of the contingent consideration expected to be paid. Based on the facts and circumstances that existed at 30 June 2014 the Group has retained the provision at $4,140,000. Given the acquisition of the Dr LeWinn's and Revitanail brandnames was an asset purchase, and not a business combination, any subsequent changes to the associated contingent consideration provision will be reflected as an adjustment to the carrying values of the respective brandnames rather than as an adjustment to profit or loss.

Prior period

Footcare International

During the prior year, on 1 August 2012, the Group's Australian business acquired the business assets of Footcare International, a leading supplier of a range of quality foot comfort, shoe care products and shoe accessories, for a total consideration of $8,082,000 (inclusive of $3,500,000 in contingent consideration that was expected to be paid).

Details of the purchase consideration, the net assets acquired and goodwill were as follows:

	$'000
Purchase consideration	
Cash paid	4,582
Contingent consideration	3,500
Total purchase consideration	**8,082**

The assets and liabilities recognised as a result of the acquisition were as follows:

	FAIR VALUE $'000
Prepayments	13
Inventories	1,026
Plant and equipment	376
Deferred tax asset	34
Payables	(57)
Employee entitlements	(70)
Net identifiable assets acquired	**1,322**
Add: Goodwill	6,760
Net assets acquired	**8,082**

The goodwill recognised is attributable to both the future earnings prospects of the acquisition and the synergies expected to be achieved from integrating this business into the Group's existing business. It will not be deductible for tax purposes.

	$'000
Purchase consideration — cash outflow	
Total consideration for acquisition accounting purposes	8,082
Less: Contingent consideration not achieved	(3,500)
Outflow of cash to acquire business — investing activities	**4,582**

(i) Contingent consideration

The Footcare International acquisition agreement included a contingent consideration arrangement. Under this arrangement the Group could have been required to pay the former owner a potential additional cash payment, up to a maximum of $3,500,000 depending on the adjusted contribution amount generated during the year ended 30 June 2013.

The potential additional payment that the Group could have been required to make under this arrangement was between $0 and $3,500,000.

In accordance with Australian Accounting Standards, the Group was required to estimate, at acquisition date, the amount of contingent consideration expected to be paid. This amount then formed part of the consideration amount used for acquisition accounting purposes. Based on the facts, circumstances and forecasts that existed at acquisition date, the Group estimated that the contingent consideration payment expected to be paid was $3,500,000. As at 30 June 2013, the Group was required to reassess the amount of consideration expected to be paid. Based on the actual outcomes achieved over the year ended 30 June 2013 the Group revised the estimated payment amount down to nil. As a result of this adjustment, and in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, the Group recognised a $3,500,000 gain at 30 June 2013. This amount has been separately disclosed in the Statement of Comprehensive Income, within the revenue and other income section, and within Note 5(c) Significant items.

(ii) Revenue and profit contribution

During the prior year the acquired business contributed revenues of $6,353,000 to the Group for the period from 1 August 2012 to 30 June 2013. Net profit generated from this business for this period has not been separately disclosed as it is impracticable to calculate an accurate amount for this given this business was completely integrated into the Group's existing operations.

NOTE 31. ACQUISITIONS (CONTINUED)

(iii) Acquisition-related costs

During the prior year acquisition-related costs of $53,000 were included within other expenses in profit or loss and in operating cash flows in the statement of cash flows.

Home Appliances

During the prior financial year, on 28 March 2013 the Group's Australian business acquired 82.21% of the Home Appliances Pty Limited Group (Home Appliances). At the same time the Group also entered into a reciprocal put/call option whereby, the Group has the option to acquire the remaining shares, and the vendors who have retained ownership of 17.79% of Home Appliances have the right to put their remaining shares to the Group, after 30 June 2015. Home Appliances is a major supplier of cooking appliances, primarily into the Australian market, with its range focussing on ovens, cooktops, rangehoods, microwaves, washing machines, dishwashers, barbeques and coffee machines.

Details of the purchase consideration, net identifiable assets acquired (including goodwill and other intangible assets) are set out as follows:

	$'000
Purchase consideration	
Cash paid	18,320
Contingent consideration (relating to put/call option)	8,715
Total purchase consideration	**27,035**

The assets and liabilities recognised as a result of the acquisition were as follows:

	FAIR VALUE $'000
Cash	1,716
Trade receivables	4,270
Other receivables	380
Inventories	8,223
Property, Plant and equipment	304
Intangible assets: software	115
Current tax asset	171
Deferred tax asset	375
Payables	(6,862)
Borrowings	(6,132)
Provision for employee entitlements	(333)
Provision for warranty claims	(706)
Net identifiable assets acquired	**1,521**
Add: Goodwill and other intangibles	25,514
Net assets acquired	**27,035**

The goodwill recognised is attributed to both the future earnings prospects of the acquisition and the synergies expected to be achieved. It will not be deductible for tax purposes.

PURCHASE CONSIDERATION — CASH OUTFLOW	$'000
Cash consideration paid	18,320
Less: Cash acquired	(1,716)
Outflow of cash to acquire subsidiary, net of cash acquired — investing activities	16,604
Repayment of subsidiary external borrowings upon acquisition — financing activities	6,132
Total outflow of cash as a result of acquisition, net of cash acquired	**22,736**

(i) Non-controlling interest and contingent consideration

As previously noted, the Group currently owns 82.21% of Home Appliances with the remaining shares being subject to a reciprocal put/call option arrangement with an exercise date commencing after 30 June 2015. The Group assessed its position with respect to this arrangement and determined that the Group had taken over the significant risks and rewards of ownership of Home Appliances and as such no non-controlling interest is reflected in the Group's financial statements.

As a result of this put/call option arrangement it is expected that the Group will acquire the remaining 17.79% of Home Appliances at some stage subsequent to 30 June 2015. The required payment amount for these shares is dependent on the average earnings before interest and tax (EBIT) generated by Home Appliances over the preceding two financial years, and ranges from $1,141,000 to $13,507,000.

In accordance with Australian Accounting Standards, the Group estimated, at acquisition date, the expected amount to be paid to buy the remaining 17.79% of shares. This amount was included as part of the consideration amount used for acquisition accounting purposes. Based on the facts, circumstances and forecasts that existed at acquisition date, the Group estimated that the expected payment required was $8,715,000 and as such a provision for this amount was raised.

As at 30 June 2014 the Group was required to reassess the amount of contingent consideration expected to be paid. Based on the facts and circumstances that existed at 30 June 2014 the Group has retained the provision at $8,715,000.

(ii) Revenue and profit contribution

During the prior year the Home Appliances business contributed revenues of $9,209,000 and an EBIT of $861,000 to the Group for the period from 29 March 2013 to 30 June 2013.

(iii) Acquisition-related costs

During the prior year acquisition-related costs of $199,000 were included within other expenses in profit or loss and in operating cash flows in the statement of cash flows.

NOTE 32. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION
McPherson's Limited	Australia
Controlled entities of McPherson's Limited	
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 35.

** McPherson's Consumer Products Pty Ltd acquired 82.21% of Home Appliances Pty Ltd and its wholly owned subsidiaries on the 28 March 2013. Refer to Note 31 for further details.

*** These subsidiaries form part of the Home Appliances Pty Ltd closed group and as such 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.

All investments represent 100% ownership interest unless otherwise stated.

NOTE 33. RELATED PARTIES

Directors

Details relating to the insurance of Directors are included in the Directors' Report.

Transactions with other related parties

There were no transactions with other related parties during the year. During the prior year some minor legal fees were paid to the law firm associated with a then Director of one of the Group's United States controlled entities. These transactions were conducted on a commercial basis with conditions no more favourable than those available to outside parties.

The aggregate amounts of transactions with other related parties were as follows:

	2014 $	2013 $
Legal fees		
J.B. Duncan P.C.	-	7,867

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.

NOTE 34. SUPERANNUATION COMMITMENTS

McPherson's Limited and its controlled entities contribute to a number of superannuation funds. The funds provide benefits on a cash accumulation basis for employees or their dependants on resignation, retirement, total and permanent disablement or death. Benefits are based on the contributions and net income thereon held by the funds on behalf of their members. The level of these benefits varies according to the fund to which the employee belongs. Company contributions to all superannuation funds are legally enforceable. Contributions may be made by the member in addition to Company contributions, as specified by the rules of the fund. Group Company contributions to employee superannuation funds during the year totalled $3,251,000 (2013: $2,873,000).

McPherson's Limited outsources the superannuation function throughout the Group, and does not sponsor any superannuation funds or pension schemes.

NOTE 35. 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

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.

(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 2014 of the Closed Group.

	2014 $'000	2013[1] $'000
Income statement		
Revenue	**257,968**	254,727
Other income	**558**	3,794
Expenses	**(319,631)**	(285,954)
Finance costs	**(7,046)**	(6,989)
Loss before income tax	**(68,151)**	(34,422)
Income tax expense	**(1,976)**	(2,119)
Loss for the year	**(70,127)**	(36,541)
Summary of movements in consolidated retained profits		
Retained profits at beginning of the financial year	**7,033**	57,043
Loss after income tax for the year	**(70,127)**	(36,541)
Dividends provided for or paid	**(11,891)**	(13,469)
(Accumulated losses) / retained profits at the end of the financial year	**(74,985)**	7,033

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2014 of the Closed Group.

	2014 $'000	2013[1] $'000
Current assets		
Cash and cash equivalents	**-**	225
Trade and other receivables	**63,451**	53,167
Inventories	**19,350**	49,651
Derivative financial instruments	**-**	4,516
Current tax assets	**253**	134
Assets classified as held for sale	**52,129**	-
Total current assets	**135,183**	107,693
Non-current assets		
Other financial assets	**41,594**	41,807
Property, plant and equipment	**4,596**	5,937
Intangible assets	**58,092**	140,664
Deferred tax assets	**4,477**	4,824
Total non-current assets	**108,759**	193,232
Total assets	**243,942**	300,925
Current liabilities		
Trade and other payables	**45,253**	37,532
Borrowings	**2,323**	2,460
Derivative financial instruments	**3,226**	814
Provisions	**17,236**	14,201
Liabilities directly associated with assets classified as held for sale	**7,874**	-
Total current liabilities	**75,912**	55,007

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

NOTE 35. DEED OF CROSS GUARANTEE (CONTINUED)

	2014 $'000	2013[1] $'000
Non-current liabilities		
Payables	**12,861**	11,815
Borrowings	**76,000**	68,851
Derivative financial instruments	**978**	1,247
Provisions	**655**	868
Deferred tax liabilities	**7,052**	14,031
Total non-current liabilities	**97,546**	96,812
Total liabilities	**173,458**	151,819
Net assets	**70,484**	149,106
Equity		
Contributed equity	**147,003**	139,117
Reserves	**(1,534)**	2,956
(Accumulated losses) / retained earnings	**(74,985)**	7,033
Total equity	**70,484**	149,106

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

NOTE 36. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net cash provided by operating activities to operating profit after income tax

	2014 $'000	2013 $'000
Operating loss after income tax	**(66,557)**	(33,319)
Impairment of intangible assets	**80,000**	50,000
Depreciation	**2,502**	2,438
Amortisation of other intangibles	**393**	251
Loss on disposal of property, plant and equipment	**130**	52
Share-based payments expense	**128**	165
Contingent consideration adjustment	**-**	(3,500)
Changes in operating assets and liabilities, excluding the effects from purchase or disposal of controlled entities:		
Increase in payables	**11,766**	2,358
Increase/(decrease) in other provisions	**37**	(218)
Increase in employee entitlements	**287**	11
Increase/(decrease) in net tax liabilities	**315**	(2,340)
(Increase)/decrease in receivables	**(5,068)**	3,391
Increase in inventories	**(739)**	(4,520)
Net cash inflows from operating activities	**23,194**	14,769

NOTE 37. EVENTS OCCURRING AFTER BALANCE DATE

On 1 July 2014 the Group commenced a two year renewable distribution agreement with Trilogy International Limited (a New Zealand listed consumer goods company) for the Group's Australian business to distribute the Trilogy branded natural skincare products within Australia.

On 3 July 2014 the Group's Australian business entered into an agreement to acquire the natural skincare brands A'kin and Lapurete and the natural hair care brand Al'chemy and associated inventory for $7,770,000. The acquisition is due to complete on 1 December 2014. The Group is currently selling the associated products as part of a transitional, short term agency relationship until the acquisition completes.

On 1 August 2014 the Group commenced a one year renewable distribution agreement with Proctor and Gamble Plc for the Group's Australian business to distribute the well known fragrance brands of Dolce&Gabbana, Gucci and Hugo Boss within the Australian Market (excluding duty free stores).

On 18 August 2014, the Group signed a Heads of Agreement with the Fackelmann Group which proposes the transfer of the Group's existing housewares business to a new venture in which the Fackelmann Group will acquire a majority stake at the proportionate net tangible asset value. Once established, the new venture will market and distribute the combined ranges of housewares products. This new venture is intended to be established by 1 November 2014. The terms of the Heads of Agreement with the Fackelmann Group provide a Put Option for McPherson's to divest the remaining 49% of the new housewares venture after one, two or three years for a consideration comprising the sum of net asset value and a multiple of future earnings. Additionally, the Fackelmann Group has a corresponding Call Option on similar terms. The parties are not bound to exercise these options.

On 18 August 2014, the Directors of the Company declared a final dividend of 5.0 cents per share fully franked which is payable on 11 November 2014 (refer to Note 5).

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

NOTE 38. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2014 $'000	2013[1] $'000
Balance Sheet		
Current assets	**1,712**	5,716
Total assets	**278,428**	273,125
Current liabilities	**16,884**	13,005
Total liabilities	**104,835**	93,960
Shareholders' equity		
Issued capital	**147,003**	139,117
Reserves - cash flow hedges	**(2,815)**	1,675
- share-based payments	**1,409**	1,281
Retained earnings	**27,996**	37,092
	173,593	179,165
Profit for the period	**2,795**	31,820
Total comprehensive income	**(1,695)**	36,380

1 See Note 1(a) for details about restatements associated with the Group early adopting AASB 9 Financial Instruments

(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 35 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 at 8 September 2014.

1. Share Capital

As at 8 September 2014 the ordinary share capital in the Company was held by the following number of shareholders:

SHARES	SHAREHOLDERS
1 – 1,000	1,543
1,001 – 5,000	1,662
5,001 – 10,000	809
10,001 – 100,000	1,045
100,001 and over	68
TOTAL	**5,127**
Holding less than a marketable parcel	674

2. Voting Rights

Each ordinary share on issue entitles the holder to one vote. Options and performance rights have no voting rights.

3. Twenty Largest Shareholders as at 8 September 2014

	NO. OF SHARES	%
HSBC Custody Nominees (Australia) Limited	14,869,345	15.58
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	8,764,633	9.18
National Nominees Limited	5,499,076	5.76
AMP Life Limited	4,483,879	4.70
Citicorp Nominees Pty Limited	3,500,615	3.67
BNP Paribas Noms Pty Ltd <DRP>	3,296,980	3.45
J P Morgan Nominees Australia Limited	1,512,980	1.59
Equitas Nominees Pty Limited <3021524 A/C>	1,124,896	1.18
Sandhurst Trustees Ltd <SISF A/C>	1,050,421	1.10
Mr David Madden	875,000	0.92
Mr Paul John Maguire	750,000	0.79
Mr Peter John Stirling & Mrs Rosalind Verena Stirling	550,000	0.58
Bond Street Custodians Limited <ZCERNA - D02137 A/C>	524,692	0.55
Mrs Melinda Sue Maguire	500,143	0.52
Mr Trevor Bruce Winston Ward	450,000	0.47
De Bruin Nominees Pty Ltd <DE BRUIN SUPER FUND A/C>	350,000	0.37
WR & MA Beischer Super Pty Ltd <WR & MA BEISCHER S/F A/C>	345,000	0.36
Gatfield Pty Ltd <ROWELL S/F A/C>	325,927	0.34
QIC Limited	324,192	0.34
Shortis Natural Therapies Pty Limited <SHORTIS FAMILY A/C>	300,631	0.32
	49,398,410	**51.76**
	95,434,645	100.00

4. Substantial Shareholders

The following is extracted from the Company's Register of Substantial Shareholders as at 8 September 2014:

	NO. OF SHARES	LAST NOTIFIED
Delta Lloyd N.V. Group	10,041,488	11 April 2014
Investors Mutual Limited	9,620,364	8 November 2013
Thistle Custodians Pty Ltd Group	8,650,000	24 April 2014
AMP Limited Group	7,079,068	4 December 2013

5. Unquoted Equity Securities

	NO. ON ISSUE	NO. OF HOLDERS
Options issued under the McPherson's Limited Employee Option Plan	375,000	1
Performance rights issued under the McPherson's Limited Employee Performance Rights Plan	416,000	7

6. Listing

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

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 8093

Email: enquiries@mcpher.com.au
Website: www.mcphersons.com.au

Company Secretaries

Philip R Bennett
Paul Witheridge

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
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

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