



# McPherson's Limited

ACN 004 068 419

105 Vanessa Street  
Kingsgrove NSW 2208  
Australia

Locked Bag 5018  
Kingsgrove NSW 1480

Telephone: +61 2 9370 8000  
Facsimile: +61 2 9370 8090

23 October 2013

Company Announcements  
ASX Limited  
Level 4  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir / Madam

Further to our announcement on 20 August 2013, which released the audited Financial Statements for McPherson's Limited for the year ended 30 June 2013, please find attached a copy of the final Annual Report for McPherson's Limited for the year ended 30 June 2013.

Yours sincerely

**Paul Witheridge**  
Company Secretary

# 2013

ANNUAL REPORT



McPHERSON'S

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## DIVIDEND POLICY

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

## FINANCIAL CALENDAR \*

February 2014  
Release of results to 31 December 2013

August 2014  
Preliminary results to 30 June 2014

October 2014  
Publication of Annual Report and accounts for year to 30 June 2014

\*Subject to change





making  
life  
easier



Total  
dividend of  
**17 cents**  
per share fully franked

**INCREASED  
CHANNEL  
DIVERSIFICATION**  
achieved through acquisition



McPHERSON'S

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It's been a challenging year, but...

- » we've substantially streamlined our business
  - » we've successfully integrated EPS accretive acquisitions
  - » we've upgraded systems and processes (IT and continuous improvement initiatives)
  - » we've created substantial available capacity at the Kingsgrove warehouse
  - » we've introduced a quality program to improve productivity, customer service and profitability
  - » we've increased third party distribution in Singapore
  - » our focus is on the consumer and our customers
  - » we are doing things differently
- 



**↑8.3%**  
revenue from  
continuing operations



“

We made substantial progress with our strategy to streamline our business and position it for the next phase of growth.

## THE WAY AHEAD

A reduction in operating overheads and a series of major operational initiatives, teamed with strategic acquisitions, have positioned McPherson's well to enhance future performance.

**David Allman**  
Chairman



Market conditions were challenging for McPherson's in 2012-2013 with particularly weak trading conditions experienced throughout the fourth quarter as historically low levels of consumer confidence were recorded in the lead up to the Australian Federal election. Consequently the company recorded a decline in profitability that belied the significant operational improvements implemented over the past two years.

In response to continuing product cost increases ex Asia and the recent weakness in the Australian dollar, the company has recently completed a comprehensive review of the profitability of its products and brands with the aim of 'right-sizing' operations. This has led to the removal of a significant number of under-performing products from the portfolio and subsequently a substantial reduction in operating overheads. While it is disappointing to report an earnings decline in 2012-2013, the company is well positioned to enhance performance over the coming year.

The 2012-2013 result was adversely affected by lower margins and higher operational costs, which more than offset savings from realigning our logistics capability. Although revenue remained strong, margins in parts of the business suffered due to the pressure from some retailers to provide additional promotional support. This support was necessary to maintain our brands' strong market positions in the current subdued retail environment. In

addition, margins were also affected by the weakening Australian dollar and the company was unable to recover higher manufacturing costs in China through price increases.

Group sales from continuing operations in the 2012-2013 financial year at \$299.2 million were 8.3% above the prior year's \$276.2 million, while pre-tax profit from continuing operations excluding a \$50.0 million impairment of intangibles and other non-recurring items at \$20.6 million was 21.1% below the prior year's \$26.1 million.

During the year goodwill and brand names were impaired by \$45 million and \$5 million respectively. Other non-recurring items before tax were the \$3.5 million write-back of a contingent consideration provision in relation to the acquisition of Footcare International, restructuring costs of \$1.6 million and acquisition costs of \$0.3 million.

Earnings per share from continuing operations<sup>1</sup> of 18.7 cents were achieved in 2012-13 compared with earnings per share from continuing operations<sup>1</sup> of 25.4 cents the previous year, representing a 26.4% decrease. Consistent with the company's policy of distributing at least 60% of net profit to shareholders, dividends representing 91% of earnings per share from continuing operations<sup>1</sup> were declared for 2012-2013, comprising an interim dividend of 10 cents and a final dividend of 7 cents, both fully franked. All future dividends are expected to remain fully franked.

Debt levels decreased from \$76.7 million at 1 July 2012 to \$69.6 million at 30 June 2013. The gearing ratio (net debt / (net debt plus shareholders' equity)) decreased from 30.8% at 30 June 2012 to 29.2% at 30 June 2013.

<sup>1</sup> Excluding the McPherson's Printing Group, which was discontinued end January 2012 and excluding the impairment of intangibles and other non-recurring items.



## The pursuit of growth through new product development and innovation remains a major focus for the business...

Net borrowing costs increased to \$6.6 million from \$5.9 million a year earlier.

On 1 August 2012, the Company acquired Footcare International, a leading marketer and distributor of a wide range of quality foot comfort products, shoe care products and shoe accessories. Distribution in Australia is through supermarkets, discount department stores, pharmacies and specialty retailers.

On 28 March 2013, the Company acquired 82.21% of Home Appliances Pty Ltd for a consideration of \$22.7 million inclusive of cash acquired and repayment of borrowings upon acquisition. Home Appliances is a major supplier of cooking related appliances, selling approximately 100,000 appliances each year. Its large appliance range is focused on ovens, cooktops and rangehoods but also includes microwaves, washing machines, dishwashers, BBQs and coffee machines. The business has strong relationships with major electrical goods retailers, kitchen companies and commercial developers. The business owns key brands that contribute 90% of revenue, including Euromaid, a major cooking brand in Australia, IAG and ARC, and also has exclusive distribution rights to brands including Elica and Fagor. The acquisition of Home Appliances provides increased channel diversification for McPherson's.

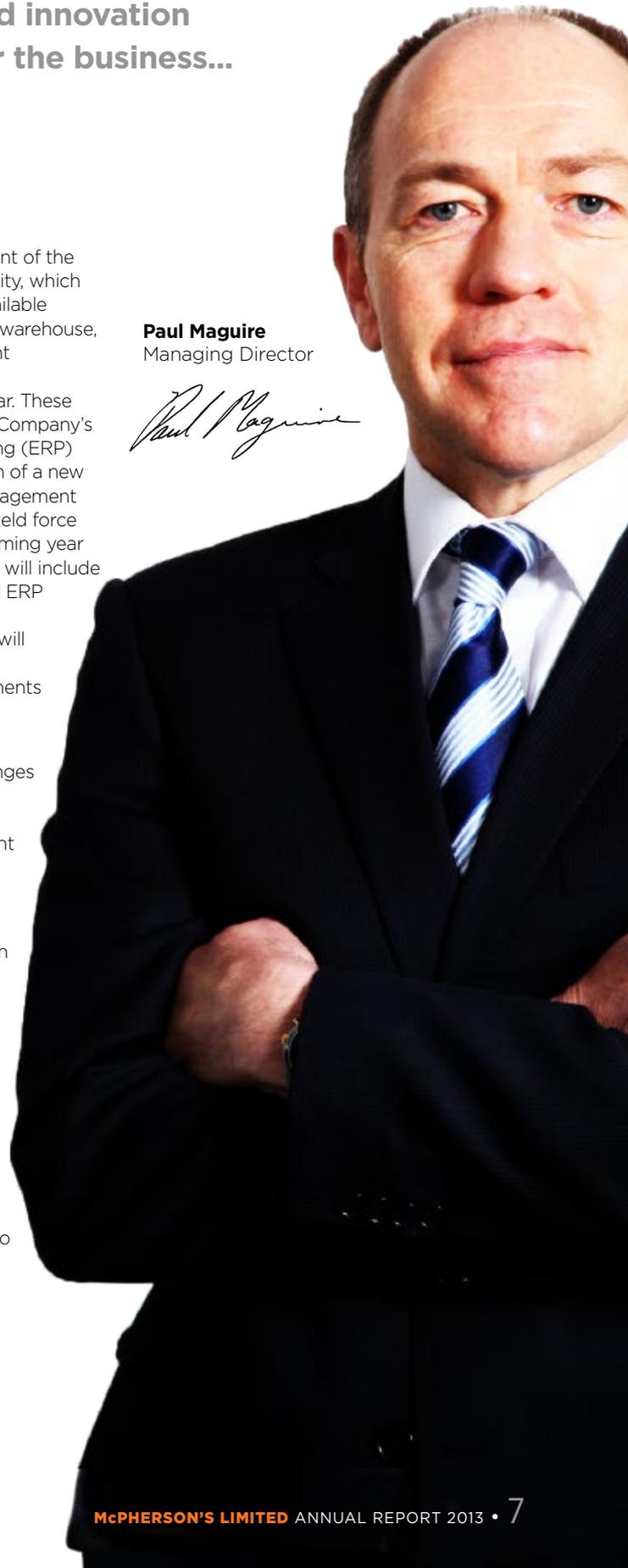
In addition, on 1 July 2013 McPherson's acquired the Maseur brand, which is a well known heritage brand utilised across a range of foot care products, and the Maseur product range will greatly complement the Footcare International product range. Distribution is primarily through the Australian pharmacy channel.

In addition to the realignment of the Company's logistics capability, which has provided significant available capacity at our Kingsgrove warehouse, a number of other important operational initiatives were implemented during the year. These include the upgrade of the Company's Enterprise Resource Planning (ERP) system and the introduction of a new Customer Relationship Management (CRM) system to enhance field force productivity. During the coming year major operational initiatives will include the roll out of the upgraded ERP system across the entire international business. This will streamline many processes leading to further improvements in productivity and cost reductions.

Following a number of changes in 2011- 2012, there were no changes in the Company's board or senior management during 2012-13.

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. The Company is well positioned to take advantage of any strategic acquisition opportunities that may arise, and the Board remains committed to pursuing all avenues of growth that will improve shareholder returns.

**Paul Maguire**  
Managing Director





## OUR SYSTEMS

are providing extra value to customers

# A YEAR OF CHALLENGES

Earnings in FY2013 were adversely affected by lower margins and higher operational costs. In response to this, the Group is currently 'right-sizing' its operations. This will result in significantly improved operational efficiency and reduced costs.

## OUR BUSINESS

McPherson's Limited designs, sources and markets products under four broad categories: Health and Beauty, with brands including Manicare, Lady Jayne, Swisspers, Moosehead and Footcare; Consumer Durables, with brands including Euromaid, Wiltshire, Stanley Rogers and Crown; Household Consumables under the Multix brand; and Impulse Merchandising under the Home Living brand. Through its successful history of acquisitions and product innovation, the company has established a portfolio of trusted brands in various categories, with distribution to 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

On 1 August 2012, McPherson's acquired Footcare International, a leading marketer and distributor of a wide range of quality foot comfort products, shoe care products and shoe accessories. Distribution in Australia is through supermarkets, discount department stores, pharmacies and specialty retailers.

On 28 March 2013, McPherson's acquired 82.21% of Home Appliances Pty Ltd for a consideration of \$22.7 million inclusive of cash acquired and repayment of borrowings upon acquisition. Home Appliances is a major supplier of cooking products, selling approximately 100,000 appliances each year. Its large appliance range is focused on ovens, cooktops and rangehoods and also includes microwaves, washing machines, dishwashers, BBQs and coffee machines. The business has strong relationships with major electrical goods retailers, kitchen companies and commercial developers. The business owns key brands that contribute 90% of revenue, including Euromaid, a major cooking brand in Australia, IAG and ARC, and also has exclusive distribution rights to brands including Elica and Fagor. The acquisition of Home Appliances provides increased channel diversification for the Group.

In addition, on 1 July 2013 McPherson's acquired the Maseur brand to complement Footcare International. Distribution is primarily through the Australian pharmacy channel.

## RESULTS FOR THE YEAR

*(Note: Figures for FY2012 exclude the results of McPherson's Printing Group, demerged in January 2012, and the costs of the demerger).*

McPherson's sales revenue from continuing operations was \$299.2 million net of customer allowances, 8.3% above the previous year's \$276.2 million, primarily due to the acquisitions of Home Appliances and Footcare International. Sales revenue from continuing businesses increased by 0.8% in a challenging environment.

Earnings before interest and tax (EBIT) from continuing operations, excluding impairment of intangibles, was \$28.9 million, 9.7% below FY2012 (\$32.0 million). Excluding significant non-recurring items, EBIT from continuing operations was \$27.2 million, 15.0% below FY2012 (\$32.0 million).

Excluding significant non-recurring items, profit before tax was \$20.6 million, 21.1% below FY2012. Significant non-recurring items before tax in FY2013 included the \$50.0 million impairment of intangible assets, \$3.5 million write-back of a contingent consideration provision in relation to the acquisition of Footcare International, restructuring costs of \$1.6 million and acquisition costs of \$0.3 million.

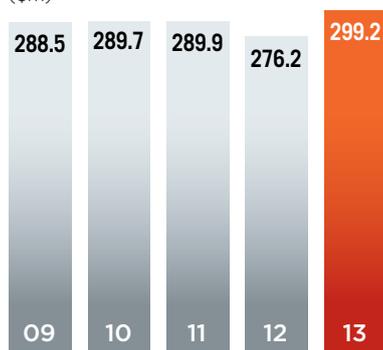
Profit after tax from continuing operations, excluding impairment of intangibles, was \$16.5 million, 10.2% below FY2012's \$18.4 million. Earnings per share from continuing operations excluding impairment of intangibles declined by 15.7% from 25.4 cents per share to 21.4 cents per share. The statutory loss per share for the year was 41.4 cents (FY2012: 23.5 cents earnings per share).

After a \$48.5 million after-tax non-cash impairment of intangible assets, McPherson's reported a statutory loss after tax of \$32.0 million, compared with the previous year's profit after tax of \$17.0 million. Profit after tax, excluding impairment of intangibles and non-recurring items, was \$14.4 million, 15.3% below FY2012.

## REVIEW OF OPERATIONS CONTINUED

### NET SALES FROM CONTINUING OPERATIONS\*

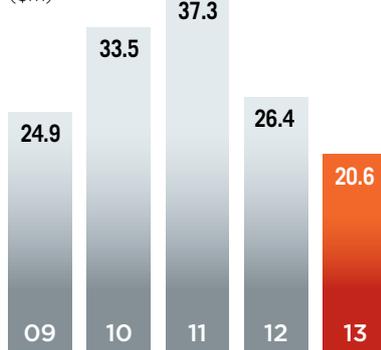
(\$m)



\* Sales Net of Customer Allowances.

### PROFIT FROM CONTINUING OPERATIONS\*

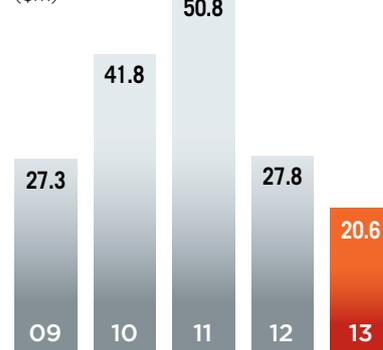
(\$m)



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

### PRE-TAX OPERATING CASH FLOW\*

(\$m)



\* Pre-tax operating cash flow. Excludes cash flows from investing and financing activities.

Operating cashflow before interest and tax from continuing operations was \$27.6 million, representing cash conversion of 88% of EBITDA of \$31.6 million.

Excluding the impact of acquisitions net working capital from continuing operations decreased by \$1.1 million, with an increase in inventory more than offset by a decrease in trade receivables and an increase in trade payables.

Net debt decreased from \$76.7 million at 1 July 2012 to \$69.6 million at 30 June 2013. The net cash inflow of \$7.1 million was impacted by proceeds of \$33.7 million from the issue of shares and payments totalling \$27.3 million for the acquisition of

businesses, including repayment of borrowings at the time of acquisition.

McPherson's gearing was 29.2% at 30 June 2013 after the \$50.0 million impairment of intangible assets (FY2012 30.8%). The value of intangible assets declined from \$184.0 million at 30 June 2012 to \$168.1 million at 30 June 2013. The acquisitions of Home Appliances Pty Limited, the Footcare International business and the Furi brand contributed the majority of an increase of \$34.1 million. This was offset by the \$50.0 million impairment of intangible assets as a result of the decline in the Australian business excluding Home Appliances.

Current provisions increased from \$6.1 million at 30 June 2012 to \$16.0 million at 30 June 2013, the primary reason for the increase being an \$8.7 million provision for contingent consideration in relation to the acquisition of Home Appliances Pty Ltd.

McPherson's has complied with all of its debt facility covenants during the year ended 30 June 2013. Based on the budget for FY2014, McPherson's is forecast to comply with all of its debt facility covenants.

The directors declared a final dividend of 7 cents per share fully franked. This represented a payout ratio for the year ended 30 June 2013 of 79% of earnings

## GROUP FINANCIAL SUMMARY

	NOTE		2013	2012	2011	2010	2009
Sales - continuing operations	1,2	\$'000	299,189	276,246	289,934	289,737	288,456
Operating profit before tax - continuing operations	1,3	\$'000	20,597	26,423	37,260	33,478	24,896
Income tax expense - continuing operations	1,3	\$'000	(6,181)	(7,758)	(11,100)	(10,250)	(7,187)
Operating profit after tax - continuing operations	1,3	\$'000	14,416	18,665	26,160	23,228	17,709
Profit after tax and after non-recurring items		\$'000	(31,960)	17,028	19,499	25,649	19,270
Pre-tax operating cash flow	7	\$'000	20,616	27,780	50,768	41,842	27,297
Shareholders' funds	4	\$'000	168,922	172,642	200,798	196,898	154,834
Return on average shareholders' funds	1,5	%	8.4	10.0	13.2	13.2	11.5
Earnings per share - continuing operations (EPS)	1,3	Cents	18.7	25.4	35.9	32.2	24.9
Earnings per share (EPS)	6	Cents	(41.4)	23.5	27.1	36.4	29.9
Dividends per share (fully franked)		Cents	17.0	17.0	26.0	20.0	-
Net debt	7	\$'000	69,589	76,666	56,544	77,021	111,351
Gearing (net debt / (net debt + shareholders' funds))	7	%	29.2	30.8	22.0	28.1	41.8

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: Shareholders' funds at the end of the financial year.

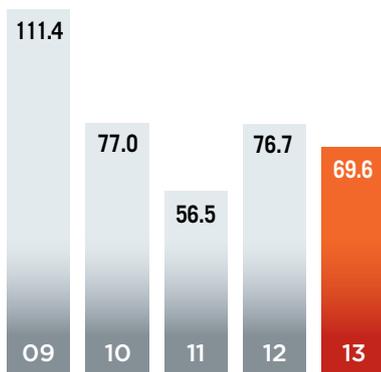
Note 5: Calculated using operating profit after tax from continuing operations and excluding non-recurring items.

Note 6: Calculated using profit after tax for both continuing and discontinued businesses and after non-recurring items.

Note 7: The 2009 to 2010 year amounts have been restated to reflect the Company's 2011 change in accounting policy for cash and cash equivalents. The pre-tax operating cash flow excludes cash flows from investing and financing activities.

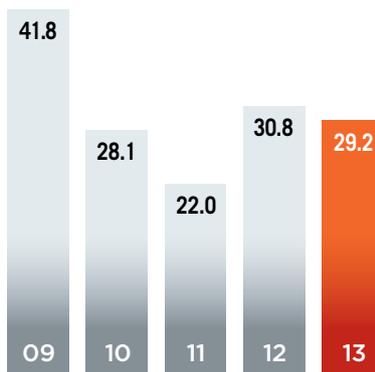
## NET DEBT

(\$m)



## GEARING\*

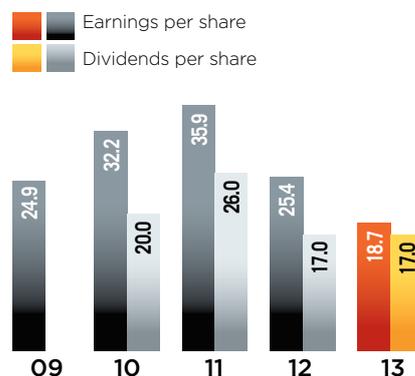
(%)



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

## EARNINGS\* AND DIVIDENDS PER SHARE

(c)



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

per share from continuing operations, excluding impairment of intangibles. The dividend reinvestment plan remained in place.

Earnings in FY2013 were adversely affected by lower margins and higher operational costs. Margins in parts of the business suffered due to pressure from some retailers to provide additional promotional support in order to maintain the strong market positions of the company's brands in the current subdued retail environment. In addition, higher manufacturing costs in China were unable to be recovered through price increases.

The Australian dollar weakened to a slight extent against the US dollar, which also had a negative impact on margins. The impact of the more pronounced decline in the Australian dollar to date in FY2014 is mitigated to some extent by the company's foreign currency hedging program; nonetheless pricing discussions are already taking place with customers in response to the lower Australian dollar.

Total expenses from continuing operations increased by \$13.5 million, from 35.6% of sales in FY2012 to 37.4% of sales in FY2013. While a significant proportion of the increase in expenses resulted from the acquisition of Home Appliances, the Group is currently in a period of transformation, with the objective of 'right-sizing' its operations. This will result in significantly improved operational efficiency and reduced costs.

## AUSTRALIA

Sales revenue in Australia was \$259.5 million, an increase of 9.5% over FY2012 (\$236.9 million). As noted above, this increase was primarily due to the acquisition of new businesses.

The recent acquisitions of Cosmex International and Footcare International generated a return on funds employed exceeding 20 per cent per annum, well above the Group's cost of capital. The Moosehead, DaVinci and Footcare brands generated profitable, incremental sales. Lady Jayne and Swisspers brand sales were marginally above the previous year, while Manicare brand sales were relatively stable.

New product launches of Housewares in the grocery channel led to significant growth in sales of the Stanley Rogers brand, more than offsetting a decline in revenue from the Wiltshire brand.

Revenue from the Multix brand was slightly below last year, with margins affected by the need to provide additional promotional support in order to maintain the brand's strong market position. Sales of Impulse Merchandise were lower due to the net effect of distribution changes.

## NEW ZEALAND

McPherson's New Zealand operation experienced similarly weak consumer spending as Australia, with sales declining 1.1% from \$NZ38.1 million in FY2012 to \$NZ37.7 million. The primary areas of sales growth were the Housewares and Beauty categories, with sales declining in the Haircare category and through the loss of the Simple agency brand following its acquisition by another company.

McPherson's continues to hold a substantial share of the New Zealand housewares and glassware markets through key brands including Wiltshire, Stanley Rogers, Crown and a range of popular agency lines.

## 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.

# REVIEW OF OPERATIONS CONTINUED

## 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;
- **Sourcing services:** provided to other companies, utilising McPherson's sourcing, product development and quality assurance capability.

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 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 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 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 to 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 revenue is derived from two customers in the grocery channel. The delisting of a sizeable 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 its recent acquisition of Home Appliances Pty Ltd.

**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.



We are committed to  
**INNOVATION**

# GETTING THE MIX RIGHT

McPherson's has established a portfolio of trusted brands in various categories, with distribution to a diverse, multi-channel customer base in Australia, New Zealand and Asia and through agents in North America and South Africa.

## HEALTH & BEAUTY

The Health & Beauty category was strengthened during the year with the acquisition of Footcare International, a leading marketer and distributor of foot comfort and shoe care products, and its range has since been complemented with the acquisition of the Maseur footwear brand in July 2013. These products are distributed to varying degrees through supermarkets, discount department stores, pharmacies and specialist retailers, further diversifying our customer base.

Sales in the Health and Beauty category grew during FY2013 due to innovation, distribution gains, consumer advertising and as a result of the acquisitions of Footcare International and Cosmex International (Moosehead, DaVinci, Eylure and Montagne Jeunesse brands) which was acquired during the second half of FY2012.

Strong innovation plans continued in FY2013. Lady Jayne delivered year on year growth with new on trend hair styling tools and accessories including the popular bun styler, the metallic collection, teasing brush and flexi bands. Manicare, which was relatively stable compared to the prior year, rejuvenated its nail treatment system range and launched new tweezer designs, styles and product enhancements. The Swisspers brand continued to lead the cotton category and expanded its beauty credentials with refreshed packaging graphics, the Aloe skincare range and luxury cotton products.

A key focus for Health & Beauty during FY2013 was to build online social communities that promoted consumer advocacy and interaction with our major brands.

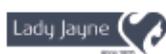
Manicare, Lady Jayne, Swisspers, Glam, Eylure and Moosehead have established highly engaged consumer communities on Facebook with over 200,000 fans. Product endorsement by beauty editors, bloggers and consumers in print and digital media delivered awareness and support for new product launches and existing products. Moosehead also continued to connect with young males on MTV through television advertising.

FY2014 promises to be another exciting year for the Health & Beauty team. There will be a continued commitment to:

- exceed the expectations of our customers and consumers;
- further strengthen our core brands through innovation, consumer advertising and high impact in-store merchandising solutions; and
- maximise distribution opportunities for our recent acquisitions and agencies.



Highly engaged: more than  
**200,000**  
fans on Facebook



## CONSUMER DURABLES



During FY2013 the Company acquired 82.21% of Home Appliances Pty Limited. This acquisition not only further diversified our channels to market, but extended the existing Housewares category into a wide range of large kitchen appliances; thereby providing the category with a complete 'oven to table' offering. As a result of the increased product range the Housewares category has been renamed Consumer Durables.

The Consumer Durables category adopts a consumer and customer centric approach and is constantly striving to further enhance our category expertise and the strength of our brands. Our category expertise extends vertically into innovation, sourcing, and distribution meaning we are able to offer world class total category management solutions to our customers. Our capability in this regard was best illustrated by Coles awarding us its 'Coles Supplier of the Year' award in its General Merchandise category.

The Consumer Durables brand portfolio consists of numerous brands including





Wiltshire, Stanley Rogers, Euromaid, Furi, Crown and Luigi Bormiolo. An example of our brand strength is the Wiltshire brand. Proudly celebrating 75 years, Wiltshire maintains market leadership in knives and bakeware and places strategic importance on performance and innovation. Recent studies support that Wiltshire has the highest prompted and unprompted brand awareness in kitchenware within Australia.

Innovation remains at the forefront of the Consumer Durables category. An example of this was the FY2013 launch of the Wiltshire Art of Baking range, a specialty baking accessories range, which leveraged global trends and strength of brand in order to deliver a high quality product range to our customers and consumers and further support our strategy of growth through adjacent innovation.

Moving into a new year, the Consumer Durables team remains committed to:

- exceeding the expectations of our customers and consumers;
- consumer lead innovation;
- continuing to deliver total category management solutions; and
- further developing our brand digital platforms.

**Euromaid**  
price, quality, performance

**ARC**

**IAGG**

## HOUSEHOLD CONSUMABLES

The principal brand of the Household Consumables category is Multix, one of Australia's most trusted brands. Established in 1971, Multix is Australia's market leading brand for garbage bags, aluminium foil, cling film and baking paper. During FY2013 Multix maintained its dominant market position.

The strategy behind the Multix brand is a simple one - to continually create innovative, reliable and convenient products that are designed to make the everyday lives of our consumers easier. During FY2013 a number of new products were launched, which is testament to the success of this strategy, including;

- compostable kitchen tidy bags;
- non-stick aluminium foil;
- fat-absorbing paper;
- 'slider' resealable bags;
- multi-layer 'extra' cling film; and
- cling film dispensing system with refills.

Household Consumables is committed to meeting and exceeding the needs of our consumers and customers and we are well equipped to support the strategies of our customers by servicing the retail market with both the Multix brand and private label ranges. The Household Consumables category is well established as the dominant player within the Household Consumables market.

Household Consumables' products are predominantly sold through the grocery channel, with ranging in the major supermarket retail chains as well as independent supermarkets right across Australia. Long term success in the highly competitive grocery retail

environment can only be achieved through an unwavering commitment to excellence. In this regard, the Household Consumables category is well placed and has a strong record of success. Looking forward, the pipeline of Multix product innovation, coupled with a continued focus on efficiency, places McPherson's in a strong position to maintain its market leading position within the highly competitive Household Consumables market.



Multix is just one of our  
**market leading brands**

**MULTIX**

## BOARD OF DIRECTORS



**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 and options:** 512,096 ordinary shares held in McPherson's Limited.



**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 and options:** 1,250,143 ordinary shares in McPherson's Limited and 750,000 options over ordinary shares.



**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 and options:** 10,000 ordinary shares in McPherson's Limited.



**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. He has led transactions in over 50 private equity controlled businesses 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.

**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 and options:** 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. Ms Lacaze has led both publicly listed and private companies as Chief Executive Officer of Commander Communications, Executive Chairman of Orion Telecommunications, and Chief Executive Officer of AOLi7. 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.

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.

### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The number of Board, Audit Risk Management and Compliance, and Nomination and Remuneration Committee meetings held during the year ended 30 June 2013, and the number of meetings attended during that period by each Director, are set out below:

DIRECTOR	BOARD MEETINGS		AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE MEETINGS		NOMINATION AND REMUNERATION COMMITTEE MEETINGS	
	Held	Attended	Held	Attended	Held	Attended
David J. Allman	13	13	4	4	2	2
Paul J. Maguire	13	13	n/a	n/a	n/a	n/a
Graham A. Cubbin	13	13	4	4	2	2
John P. Clifford	13	12	n/a	n/a	2	2
Amanda M. Lacaze	13	12	4	4	n/a	n/a

# CORPORATE GOVERNANCE STATEMENT

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, unless otherwise stated, were in place throughout the entire financial year ended 30 June 2013 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 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 delegation of specific functions to appropriate senior executives 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 2013. 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 16 and 17 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 Directors' 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 17 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 2013.

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 2013.

### **Audit Risk Management and Compliance Committee**

The Company also has an Audit Risk Management and Compliance Committee; see page 20 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 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.

# CORPORATE GOVERNANCE STATEMENT CONTINUED

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 Company'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;
- Increase the number of women in senior executive positions to be in the range of 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 2013:

	NUMBER	%
Number of women employees in the Group	708	76
Number of women in senior manager/manager positions	47	45
Number of women in senior executive positions	-	-
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 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: 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 17 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 2013.

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

### **Communication to Shareholders**

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 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 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 12 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.

## CORPORATE GOVERNANCE STATEMENT CONTINUED

- 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.
- 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.
- 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 over shares in the Company granted under the McPherson's Limited Employee Share/Option Purchase 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 remuneration of certain senior executives may include the issue of options over ordinary shares under the McPherson's Limited Employee Share/Option Purchase Plan, or benefits provided under other approved long term incentive plans implemented from time to time.

During the year ended 30 June 2011, a total of 1,050,000 options were issued to senior executives of the Group. Further details of the options are included in the Remuneration Report in the Directors' Report on pages 25 to 34 of the Annual Report.

During the year ended 30 June 2010, following shareholder approval which was given at the 2009 Annual General Meeting, 1,500,000 options were issued to Mr. Paul Maguire. Further details relating to the options issued to Mr. Maguire are also contained in the Remuneration Report in the Directors' Report.

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 in the Directors' Report on pages 25 to 34 of the Annual Report.

### 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.

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.

# McPHERSON'S LIMITED

## ACN 004 068 419

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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 2013.

## (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

The Group is a leading marketer of health and beauty, consumer durables and household consumables in Australasia, with operations in Australia, New Zealand and Asia. Existing product ranges include beauty care; hair care; skin care; large appliances such as cooktops, ovens, washing machines and dishwashers; kitchen utensils such as cutlery, kitchen knives, bakeware and cookware; and kitchen essentials such as plastic bags, baking paper, cling wrap and aluminium foil. The Group owns and markets a portfolio of market-leading brands, including Manicare, Lady Jayne, Swisspers, Moosehead, Footcare, Euromaid, Wiltshire, Stanley Rogers and Multix.

During the year the Group expanded its product range to include large appliances such as cooktops and ovens, through its acquisition of Home Appliances, and foot comfort, shoe care and shoe accessory products, through its acquisition of Footcare International.

## (C) DIVIDENDS

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

	<b>\$'000</b>
• Interim ordinary dividend of 10.0 cents per fully paid ordinary share paid on 11 April 2013 (fully franked)	8,401
• Final ordinary dividend of 7.0 cents per fully paid ordinary share declared by Directors (fully franked) but not recognised as a liability at year end	6,251
<b>Total dividends in respect of the year</b>	<b>14,652</b>

The 2012 final ordinary dividend of \$5,068,000 (7.0 cents per fully paid ordinary share) referred to in the Directors' Report dated 30 August 2012 was paid on 31 October 2012.

## (D) CONSOLIDATED RESULTS

The consolidated loss after tax from continuing operations of the Group for the year ended 30 June 2013 was \$31,960,000 (2012: profit \$18,410,000). The current year loss is inclusive of significant items amounting to a net expense after tax of \$46,376,000. The primary item included within this amount is an after tax impairment charge of \$48,500,000 relating to goodwill and brandnames associated with the Australian cash generating unit (excluding Home Appliances). Refer to Note 3(c) Significant items for further information.

Excluding significant items, the consolidated profit after tax from continuing operations for the year ended 30 June 2013 was \$14,416,000 (2012: \$18,355,000).

Net loss for the year attributable to members was \$31,960,000 (2012: profit \$17,028,000).

## (E) REVIEW OF OPERATIONS

The review of operations of the Group is contained in the Chairman's and Managing Director's Report on pages 6 and 7 and the Review of Operations on pages 9 to 12 of the Annual Report and forms part of this 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:

Share capital increased by \$35,864,000 from \$103,253,000 to \$139,117,000 as a result of the institutional share placement (\$24,000,000), eligible shareholder share purchase plan (\$9,651,000), and the dividend reinvestment plan (\$2,729,000). Transaction costs, net of tax, of \$516,000 were recognised as a reduction to equity. Details of the changes in share capital are disclosed in Note 24 to the financial statements.

The net cash received from the increase in share capital was used primarily for the purchase of 82.21% of the Home Appliances Pty Ltd Group (Home Appliances) and to reduce the Group's borrowings. Details of the Home Appliances acquisition are disclosed in Note 31 to the financial statements.

## (G) EVENTS SUBSEQUENT TO BALANCE DATE

On 1 July 2013, the Group's Australian business acquired the intellectual property assets (primarily brandname assets) and associated inventory of Maseur Sandals, a well known Australian footwear brand, for the value of \$5,043,000.

On 19 August 2013, the Directors of the Company declared a final dividend of 7.0 cents per share fully franked which is payable on 12 November 2013.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event, of a material and unusual nature likely to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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

In the opinion of the Directors, it would prejudice the interests of the Group to include additional information, except as reported in this Directors' Report and the Annual Report, which relates to likely developments in the operations of the Group and the expected results of those operations in financial periods subsequent to 30 June 2013.

## **(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 16 to 17 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 17 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 16 to 17 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 17 of the Annual Report and form part of this Directors' Report.

## **(K) REMUNERATION REPORT**

The remuneration report is set out under the following main headings:

- 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*.

### **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

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

*Other key management personnel*

The key management personnel (as defined in AASB 124 *Related Party Disclosures*) of McPherson's Limited and the McPherson's Limited Group includes the Directors and the following executives, as they had authority and responsibility for planning, directing and controlling the activities of the McPherson's Limited Group, directly or indirectly, 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 <sup>(1)</sup>	Global Supply Chain Director

(1) C. J. Muir was appointed Global Supply Chain Director on 2 July 2012.

All other persons were key management personnel for the entire year ended 30 June 2013.

**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 reward. The Board ensures that executive reward satisfies 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:

	2013	2012	2011	2010	2009
Statutory (loss)/profit for the year (\$'000)	<b>(31,960)</b>	17,028	19,499	25,649	19,270
(Loss)/profit after tax from continuing operations	<b>(31,960)</b>	18,410	25,804	25,649	19,270
Basic earnings per share (cents)	<b>(41.4)</b>	23.5	27.1	36.4	29.9
Basic earnings per share - continuing operations (cents)	<b>(41.4)</b>	25.4	35.9	36.4	29.9
Dividends declared for the relevant financial year (\$'000)	<b>14,652</b>	12,308	18,824	14,330	-
Dividend payout ratio (%)	<b>n/a</b>	72.3	96.5	55.9	43.5
Increase/(decrease) in share price (%)	<b>(21.3)</b>	(40.1)	20.3	46.1	(37.2)
Total KMP incentives as percentage of statutory (loss)/profit for the year (%)	<b>(0.3)</b>	2.4	4.9	5.9	-

**Use of Remuneration Consultants**

During the year ended 30 June 2013 the Group engaged PricewaterhouseCoopers (PwC) to perform a benchmarking exercise associated with the Group's long term incentive arrangements. This review 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 and option 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 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 Directors' remuneration for the year ended 30 June 2013 totalled \$375,384 (2012: \$445,741).

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

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 Directors' fees were increased by an average of 3%. Prior to that, fees were reviewed effective 1 October 2011, 1 October 2010, 1 October 2009, 1 October 2007, 1 October 2006, 1 October 2004 and 1 July 2000. 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 have applied:

	FROM 1 OCTOBER 2012	FROM 1 OCTOBER 2011 TO 30 SEPTEMBER 2012
<b>Base fees</b>		
Chairman	\$127,310	\$123,600
Other non-executive Directors	\$66,840	\$64,890
<b>Additional fees</b>		
Audit Risk Management & Compliance Committee – Chairman	\$8,490	\$8,240
Audit Risk Management & Compliance Committee – Member	\$5,300	\$5,150

The above amounts exclude company superannuation guarantee contributions payable on behalf of Directors at a rate of 9% on the base fees and additional fees.

## Executive remuneration

The executive remuneration and reward framework has four components:

- Base pay and benefits;
- Short-term performance incentives;
- Long-term incentives; and
- Post-employment benefits.

The combination of these comprises an executive's total remuneration.

**(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 2013 STI targets were primarily based on the Group's earnings per share.

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)*

The McPherson's Limited Employee Option Plan is designed to provide long-term incentives for executives to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance conditions (relating to total shareholder return - refer page 32 for further information) are met and the employees are 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 options is contained later in the Remuneration Report on page 32.

*Post-employment benefits*

Post-employment benefits are delivered by a number of superannuation funds selected by the Company or the executive. Executives receive superannuation contribution 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 2012 Annual General Meeting**

McPherson's Limited received 93.36% of "yes" votes on its remuneration report for the 2012 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 are set out in the following tables.

### Key Management Personnel of the Group

2013	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENT	TOTAL
	CASH SALARY & FEES <sup>1</sup>	CASH BONUS	NON-MONETARY BENEFITS <sup>2</sup>	SUPER-ANNUATION	LONG-SERVICE LEAVE	OPTIONS	
NAME	\$	\$	\$	\$	\$	\$	\$
<i>Directors of McPherson's Limited</i>							
D.J. Allman (Chairman)	134,495	-	-	9,000	-	-	143,495
P.J. Maguire (Managing Director) <sup>3</sup>	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
<b>Total Directors' Remuneration 2013</b>	<b>860,316</b>	<b>-</b>	<b>31,172</b>	<b>53,147</b>	<b>27,134</b>	<b>-</b>	<b>971,769</b>
<i>Other Group Key Management Personnel</i>							
S.K.S. Chan <sup>4</sup>	333,002	-	-	31,065	-	31,992	396,059
G.P. Mitchell <sup>4</sup>	230,665	-	31,320	22,434	-	15,995	300,414
C. J. Muir <sup>4,5</sup>	229,638	-	30,283	19,980	447	-	280,348
P. Witheridge <sup>4</sup>	273,239	-	25,260	22,544	2,325	42,655	366,023
<b>Total Other Key Management Personnel Remuneration 2013</b>	<b>1,066,544</b>	<b>-</b>	<b>86,863</b>	<b>96,023</b>	<b>2,772</b>	<b>90,642</b>	<b>1,342,844</b>
<b>Total Remuneration 2013 - Group</b>	<b>1,926,860</b>	<b>-</b>	<b>118,035</b>	<b>149,170</b>	<b>29,906</b>	<b>90,642</b>	<b>2,314,613</b>

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

2 Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax, medical insurance premiums, and allowances.

3 Employed by McPherson's Limited.

4 Employed by a controlled entity of McPherson's Limited.

5 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)**

**Key Management Personnel of the Group**

2012	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	SHARE-BASED PAYMENT		TOTAL
	CASH SALARY & FEES <sup>1</sup>	CASH BONUS	NON-MONETARY BENEFITS <sup>2</sup>	SUPER-ANNUATION	LONG-SERVICE LEAVE	TERMINATION BENEFITS	OPTIONS	
NAME	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors of McPherson's Limited</i>								
D.J. Allman (Chairman) <sup>5</sup>	77,579	-	-	36,141	-	-	-	113,720
P.J. Maguire (Managing Director) <sup>4</sup>	425,312	-	32,798	25,000	4,656	-	103,372	591,138
J.P. Clifford	64,418	-	-	5,798	-	-	-	70,216
G.A. Cubbin	72,598	-	-	6,534	-	-	-	79,132
A.M. Lacaze <sup>5</sup>	54,361	-	-	4,892	-	-	-	59,253
S.A. Rowell <sup>6</sup>	84,104	-	-	8,433	-	-	-	92,537
P.D.J. Landos <sup>7</sup>	28,333	-	-	2,550	-	-	-	30,883
<b>Total Directors' Remuneration 2012</b>	806,705	-	32,798	89,348	4,656	-	103,372	1,036,879
<i>Other Group Key Management Personnel</i>								
S.K.S. Chan <sup>8</sup>	308,779	9,670	-	26,634	-	-	42,734	387,817
P.R. Bennett <sup>9</sup>	95,192	-	2,491	45,832	-	338,458	-	481,973
A.E. Fahy <sup>10</sup>	190,335	200,000	-	14,398	-	375,950	-	780,683
G.P. Mitchell <sup>8</sup>	211,398	-	25,823	20,954	1,071	-	21,366	280,612
P. Witheridge <sup>8,11</sup>	166,913	-	14,735	13,533	1,801	-	33,236	230,218
<b>Total Other Key Management Personnel Remuneration 2012</b>	972,617	209,670	43,049	121,351	2,872	714,408	97,336	2,161,303
<b>Total Remuneration 2012 - Group</b>	1,779,322	209,670	75,847	210,699	7,528	714,408	200,708	3,198,182

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, allowances and private telephone expenses.

3 Mr Allman was appointed as Chairman on 18 November 2011. Mr Allman was a non-executive Director for the entire year.

4 Employed by McPherson's Limited.

5 Ms Lacaze was appointed as a Director with effect from 22 September 2011. Amounts shown include Ms Lacaze's remuneration as a Director from that date until 30 June 2012.

6 Mr Rowell retired as Chairman and as a Director on 18 November 2011.

7 Mr Landos retired as a Director on 18 November 2011.

8 Employed by a controlled entity of McPherson's Limited.

9 Mr Bennett retired as Chief Financial Officer and as an employee of the McPherson's Limited Group on 30 November 2011. Mr Bennett was subsequently engaged to provide Company Secretarial and other consulting services to the Group.

10 Mr Fahy ceased being an employee of the Group on 31 January 2012 as a result of the demerger of the Group's printing business.

11 Mr Witheridge was appointed as Chief Financial Officer and Company Secretary with effect from 1 December 2011. Amounts shown include Mr Witheridge's remuneration from that date until 30 June 2012.

Amounts disclosed as remuneration of Directors and executives exclude premiums paid by the consolidated entity 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*	
	2013	2012	2013	2012	2013	2012
<i>Executive Director of McPherson's</i>						
P.J. Maguire	100%	83%	-	-	-	17%
<i>Other key management personnel of the Group</i>						
S.K.S. Chan	92%	86%	-	3%	8%	11%
G.P. Mitchell	95%	92%	-	-	5%	8%
C. J. Muir**	100%	-	-	-	-	-
P. Witheridge	88%	86%	-	-	12%	14%

\* Since the long-term incentives are provided exclusively by way of options, the percentages disclosed also reflect the value of remuneration consisting of options, based on the value of options expensed during the year.

\*\* Mr Muir was appointed as Global Supply Chain Director with effect from 2 July 2012.

### 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. Other benefits may include health insurance premiums and the payment of private telephone accounts. The agreements also provide for participation, when eligible, in the McPherson's Limited Employee Share/Option Purchase 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.

Other major provisions of the employment agreements relating to remuneration for the executives disclosed are set out below.

NAME	TERM OF AGREEMENT	BASE SALARY INCLUDING SUPERANNUATION*	TERMINATION BENEFIT
P.J. Maguire <i>Managing Director</i>	On-going commencing 1 October 2012. 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 <i>Managing Director McPherson's Consumer Products (HK) Limited</i>	On-going commencing 1 October 2012.	HKD\$2,689,450 (AUD\$339,418)	Contract may be terminated on 3 months notice by either the Company or executive.
P. Witheridge <i>Chief Financial Officer and Company Secretary</i>	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 <i>General Manager McPherson's Consumer Products (NZ) Limited</i>	On-going commencing 1 October 2012.	NZD\$326,262 (AUD\$277,174)	Contract may be terminated on 6 months notice by either the Company or executive.
C. J. Muir <i>Global Supply Chain Director McPherson's Consumer Products Australia Pty Ltd (from 2 July 2012)</i>	On-going commencing 2 July 2012.	\$271,980	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 2013; they are reviewed annually by the Nomination and Remuneration Committee.

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

**Share-based compensation**

Options over ordinary shares can be granted as remuneration to the Managing Director and other executives under the McPherson's Limited Employee Share/Option Purchase Plan. The Plan was originally approved by shareholders at an Extraordinary General Meeting in 1987 and subsequently considered at the 1992 Annual General Meeting when certain amendments to the Plan were approved.

Options are issued under the Plan from time to time on terms and conditions, including performance criteria, being determined by the Board's Nomination and Remuneration Committee. The Committee has selected performance hurdles to reflect a combination of share price and dividend performance (collectively referred to as total shareholder return) as these criteria relate to a shareholders' overall return on investment.

**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 <sup>(1)</sup>	EXPIRY DATE	VALUE PER OPTION AT GRANT DATE <sup>(2)</sup>	AMOUNT PAID AT GRANT DATE	TERMS AND CONDITIONS OF GRANT				
					EXERCISE PRICE <sup>(2)</sup>	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:
- The grant date for option valuation purposes is the option issue date of 1 April 2011.
  - 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.
  - 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:
    - the percentage change in the S&P/ASX Small Ordinaries Index from the issue date to the assessment date; or
    - 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).
  - Providing the performance criteria are satisfied, options may be exercised at any time between 1 April 2013 and 31 March 2016.
  - 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.

No options have been granted since 2011.

## 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 and affect remuneration in the 2010 and subsequent reporting periods. The options were granted and are exercisable in four equal tranches of 375,000 and were issued on the following terms:

TRANCHE NO.	NUMBER GRANTED	GRANT DATE <sup>(1)</sup>	EXPIRY DATE	VALUE PER OPTION AT GRANT DATE <sup>(1)</sup>	AMOUNT PAID AT GRANT DATE	TERMS AND CONDITIONS OF GRANT				
						EXERCISE PRICE	DATE EXERCISABLE		SHARE PRICE CRITERIA	SHAREHOLDER RETURN CRITERIA
							FROM	TO		
1	375,000	06-Jul-09	06-Jul-13	\$1.26	\$3,750	\$1.64	06-Jul-10	06-Jul-13	Note 2	Note 3
2	375,000	06-Jul-09	06-Jan-14	\$1.21	\$3,750	\$1.64	06-Jan-11	06-Jan-14	Note 2	Note 3
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
1,500,000										

### Notes:

- 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.
- The share price must exceed the relevant exercise price for a continuous period of 40 trading days.
- 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 1 - 25% of the options granted may be exercised between one and four years from 6 July 2009 (the date the decision to appoint Mr Maguire was announced and the date the offer of the options was accepted) 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. This tranche was exercised on 15 March 2011;
- Tranche 2 - 25% of the options granted may be exercised between one and a half years and four and a half 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. This tranche was exercised on 15 March 2011;
- 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 vested as soon as they become exercisable. 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.

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

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.

**Options provided as remuneration**

There were no options granted over ordinary shares of McPherson's Limited during or since the end of the financial year ended 30 June 2013, or during the year ended 30 June 2012, to any of the Directors or the other key management personnel of the Company or the consolidated entity as part of their remuneration. The terms and conditions of each grant of options affecting remuneration in the current or future reporting period are as follows:

GRANT DATE	VESTING AND EXERCISE DATE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE	PERFORMANCE ACHIEVED	% VESTED
1 April 2011	1 April 2013	31 Mar 2016	\$3.61	\$0.57	Nil	N/A

There were no options over ordinary shares in the Company provided as remuneration in the current year and no options vested during the current year.

**Shares provided on exercise of remuneration options**

No options were exercised during the current year (2012:Nil) and as such no shares were provided.

**Employee share schemes**

In previous years Directors of McPherson's Limited and other key management personnel of the Group including the Company Secretary were eligible to participate in the Company's employee share schemes on a salary or fee sacrifice basis, on the same terms and conditions as other employees. However, the operation of the Company's two share schemes was discontinued in February 2010 because of the reduced tax benefits available to participating employees. As a consequence the plans have been closed to new participants since that date and are being wound down.

**Additional information**

**Cash bonuses**

For each cash bonus included in the remuneration tables shown earlier in this report, the percentage of the available bonus that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below.

NAME	BONUS	
	AWARDED %	FORFEITED %
P.J. Maguire	-	100
S.K.S. Chan	-	100
G.P. Mitchell	-	100
C. J. Muir	-	100
P. Witheridge	-	100

**Additional information**

**Loans to Directors and executives**

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

**Other transactions with Directors and executives**

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

There were no transactions between the 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.

## (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 July 2014	\$1.64	375,000
6 July 2009	6 January 2015	\$1.75	375,000
1 April 2011	31 March 2016	\$3.61	775,000
			<b>1,525,000</b>

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 2013 (30 June 2012: 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 non-audit services provided during the year are set out below.

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

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

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

	2013 \$	2012 \$
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:		
<b>Other assurance services</b>		
PricewaterhouseCoopers Australian firm:		
Other assurance services associated with Printing demerger	-	50,000
Review of rent certificates	5,800	5,500
Overseas affiliates of PricewaterhouseCoopers Australian firm:		
Financial statements preparation	3,000	3,000
Other assurance services - Hong Kong	16,849	-
Non PricewaterhouseCoopers audit firms:		
Audit of pension plans	-	499
<b>Total remuneration for other assurance services</b>	<b>25,649</b>	<b>58,999</b>
<b>Other services</b>		
Consulting services associated with remuneration review	24,000	-
Consulting services associated with due diligence review	65,000	-
Consulting services associated with Printing demerger	-	375,000
<b>Total remuneration for other services</b>	<b>89,000</b>	<b>375,000</b>
<b>Total remuneration for non-audit services</b>	<b>114,649</b>	<b>433,999</b>

**(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 as required under section 307C of the *Corporations Act 2001* is set out on page 37.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 19th day of August 2013.



**D.J. Allman**  
Director



**P.J. Maguire**  
Director



As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2013, 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

19 August 2013

**PricewaterhouseCoopers, ABN 52 780 433 757**

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

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## McPHERSON'S LIMITED & CONTROLLED ENTITIES 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 40 to 88 and the remuneration report on pages 25 to 34 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 2013 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 19th day of August 2013.



**D.J. Allman**  
Director



**P.J. Maguire**  
Director



### Report on the financial report

We have audited the accompanying financial report of McPherson's Limited (the company), which comprises the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and 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, 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 2013 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.

### Report on the Remuneration Report

We have audited the remuneration report included in pages 25 to 34 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Paddy Carney  
Partner  
Sydney 19 August 2013

**PricewaterhouseCoopers, ABN 52 780 433 757**

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

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 \$'000	2012 \$'000
Revenue	4	299,263	276,319
Other income	5	3,846	664
Expenses	3	(324,203)	(244,955)
Finance costs		(6,642)	(5,970)
<b>(Loss) / profit before income tax</b>		<b>(27,736)</b>	26,058
Income tax expense	6(b)	(4,224)	(7,648)
<b>(Loss) / profit from continuing operations after income tax</b>		<b>(31,960)</b>	18,410
<b>Discontinued Operation</b>			
Loss from discontinued operation (net of income tax)	30	-	(1,382)
<b>(Loss) / profit for the year</b>		<b>(31,960)</b>	17,028
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges		5,443	(1,605)
Exchange differences on translation of foreign operations		1,864	549
Income tax relating to components of other comprehensive income	6(d)	(1,627)	488
<b>Other comprehensive income for the year</b>		<b>5,680</b>	(568)
<b>Total comprehensive income for the year</b>		<b>(26,280)</b>	16,460
<b>Total comprehensive income for the year arises from:</b>			
Continuing operations		(26,280)	17,820
Discontinued operation		-	(1,360)
		<b>(26,280)</b>	16,460
		<b>Cents</b>	Cents
Basic earnings per share	29	(41.4)	23.5
Diluted earnings per share	29	(41.4)	23.5
Basic earnings per share - continuing operations	29	(41.4)	25.4
Diluted earnings per share - continuing operations	29	(41.4)	25.4

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

# CONSOLIDATED BALANCE SHEET

## AS AT 30 JUNE 2013



	NOTE	2013 \$'000	2012 \$'000
<b>Current assets</b>			
Cash	10	1,666	1,253
Receivables	11	56,762	55,550
Inventories	12	67,334	52,932
Derivative financial instruments	13	5,258	95
<b>Total current assets</b>		<b>131,020</b>	109,830
<b>Non-current assets</b>			
Property, plant and equipment	15	7,667	7,076
Intangibles	16	168,104	183,986
Deferred tax assets	17	5,597	5,462
<b>Total non-current assets</b>		<b>181,368</b>	196,524
<b>Total assets</b>		<b>312,388</b>	306,354
<b>Current liabilities</b>			
Payables	18	38,874	30,130
Derivative financial instruments	13	814	2,760
Borrowings	19	2,404	1,419
Provisions	20	15,965	6,085
Current tax liabilities		289	989
<b>Total current liabilities</b>		<b>58,346</b>	41,383
<b>Non-current liabilities</b>			
Derivative financial instruments	13	1,247	1,455
Borrowings	21	68,851	76,500
Provisions	22	949	828
Deferred tax liabilities	23	14,073	13,546
<b>Total non-current liabilities</b>		<b>85,120</b>	92,329
<b>Total liabilities</b>		<b>143,466</b>	133,712
<b>Net assets</b>		<b>168,922</b>	172,642
<b>Shareholders' equity</b>			
Share capital	24	139,117	103,253
Reserves	25(a)	1,401	(4,444)
Retained profits	25(b)	28,404	73,833
<b>Total shareholders' equity</b>		<b>168,922</b>	172,642

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	SHARE CAPITAL \$'000	RESERVES \$'000	RETAINED PROFITS \$'000	TOTAL \$'000
<b>Balance at 1 July 2011</b>		129,338	(4,181)	75,641	200,798
Profit for the year		-	-	17,028	17,028
Cash flow hedges, net of tax	25(a)	-	(1,117)	-	(1,117)
Exchange differences on translation of foreign operations	25(a)	-	549	-	549
<b>Total comprehensive income</b>		-	(568)	17,028	16,460
<i>Transactions with shareholders</i>					
Dividends paid	7	-	-	(17,376)	(17,376)
Share-based payment transactions	25(a)	-	305	-	305
Distribution to owners - Printing demerger	30	(26,085)	-	(1,460)	(27,545)
<b>Total transactions with shareholders</b>		(26,085)	305	(18,836)	(44,616)
<b>Balance at 30 June 2012</b>		103,253	(4,444)	73,833	172,642
Loss for the year		-	-	<b>(31,960)</b>	<b>(31,960)</b>
Cash flow hedges, net of tax	25(a)	-	<b>3,816</b>	-	<b>3,816</b>
Exchange differences on translation of foreign operations	25(a)	-	<b>1,864</b>	-	<b>1,864</b>
<b>Total comprehensive income</b>		-	<b>5,680</b>	<b>(31,960)</b>	<b>(26,280)</b>
<i>Transactions with shareholders</i>					
Shares issued, net of transactions costs and tax		<b>35,864</b>	-	-	<b>35,864</b>
Dividends paid	7	-	-	<b>(13,469)</b>	<b>(13,469)</b>
Share-based payment transactions	25(a)	-	<b>165</b>	-	<b>165</b>
<b>Total transactions with shareholders</b>		<b>35,864</b>	<b>165</b>	<b>(13,469)</b>	<b>22,560</b>
<b>Balance at 30 June 2013</b>		<b>139,117</b>	<b>1,401</b>	<b>28,404</b>	<b>168,922</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2013



	NOTE	2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		334,519	330,888
Payments to suppliers and employees (inclusive of GST)		(306,966)	(297,313)
Interest received		64	39
Interest and borrowing costs paid		(7,001)	(5,934)
Income tax paid		(5,847)	(11,457)
Dividends received		-	100
<b>Net cash inflows from operating activities</b>	36	<b>14,769</b>	16,323
<b>Cash flows from investing activities</b>			
Payments for purchase of property, plant and equipment		(2,399)	(5,023)
Proceeds from sale of property, plant and equipment		65	40
Payment for acquisition of subsidiary, net of cash acquired	31	(16,604)	-
Payments for acquisition of business assets	31	(4,582)	(6,317)
Payments for purchase of intangible assets		(768)	(505)
Cash distributed with Printing business	30	-	(4,701)
Costs associated with Printing demerger		-	(2,530)
<b>Net cash outflows from investing activities</b>		<b>(24,288)</b>	(19,036)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	24	33,651	-
Transaction costs from issue of shares	24	(737)	-
Proceeds from borrowings		172,412	124,000
Repayment of borrowings		(177,500)	(104,500)
Repayment of subsidiary borrowings at time of acquisition	31	(6,132)	-
Dividends paid		(10,740)	(17,376)
Repayment of finance lease liabilities		-	(82)
<b>Net cash inflows from financing activities</b>		<b>10,954</b>	2,042
<b>Net increase/(decrease) in cash held</b>		<b>1,435</b>	(671)
Cash at beginning of the financial year		(166)	486
Net effect of exchange rate changes on cash		46	19
<b>Cash held at end of financial year</b>	10	<b>1,315</b>	(166)

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 assets which are carried at deemed cost or fair value.

### New and amended standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

### (b) Principles of consolidation

#### Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by McPherson's Limited (parent entity) as at 30 June 2013 and the results of all controlled entities for the year then ended. Controlled entities are those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. McPherson's Limited and its controlled entities together are referred to as the Group. All inter-company balances, transactions and unrealised profits resulting from inter-company transactions have been eliminated. Where control of an entity is obtained during a financial year its results are included in the consolidated statement of comprehensive income from the date on which control commences. Where control of an entity ceases during a financial year its results are included up to the point in the year when control ceases.

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

#### Associates

Associates are all entities over which the Group has significant influence but not control.

The Group previously held a 33⅓% shareholding in an associate company Denward Court Pty Ltd which is incorporated in Australia and whose principal activity is book binding. The Group no longer holds this investment as it was distributed to owners during the prior year as part of the demerger of the Group's printing business. The investment in the associate was accounted for in the consolidated financial statements using the equity method of accounting after initially being recognised at cost.

Details relating to the Group's previous shareholding in this associate are set out in Note 14.

### (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

Transactions in foreign currencies are initially translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

#### (iii) Translation of foreign controlled entities

The results and financial position for all the Group entities 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 are translated at average exchange rates; and
- all resulting exchange differences 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.

### (e) Revenue recognition

#### Sales revenue

Sales revenue comprises revenue earned (net of returns, allowances, duties and taxes) from the provision of products or services to entities outside the Group. Sales revenue is recognised when the goods are dispatched, or when title passes to the customer, at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

#### 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 between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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, the deferred income tax is 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 balance sheet date 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 controlled entities 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 implemented the tax consolidation legislation effective 1 July 2002. As a consequence, 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 or 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. Previously they were recognised as part of the cost of acquisition and therefore included in goodwill. 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 measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to paragraph (r)). If the cost of acquisition is less than the fair value of the net assets of the business acquired, the difference is recognised directly in profit or loss, 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 reviewed 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 flows (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.

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

### (j) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash includes 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, 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 or 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. 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, and stated at the lower of their carrying amount and fair value less costs to sell, if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

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.

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

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

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

### (n) Investments and other financial assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss; and
- loans and receivables.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

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

#### Loans and receivables

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

### (o) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss 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 accumulated in equity in the hedging reserve. 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 will affect profit or loss. 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 transferred from equity and included in the measurement of the initial cost or carrying amount of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory.

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

### **Cash flow hedges 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 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, as follows:

Buildings	25 - 50 years
Plant and equipment	3 - 13 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 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 represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business/associate at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill is not amortised but 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. 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 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 balance date whether or not billed at that date. Trade accounts are normally settled within 60 days.

##### **(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.

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

**(u) Employee benefits (continued)**

**(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.

**(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.

The fair value of options granted under the McPherson's Limited Employee Share/Option Purchase Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the

impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

**(v) Dividends**

Provision is made for any dividend declared by the Directors 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 Note 29).

**(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 Note 29).

**(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.

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) Rounding of amounts**

The Company is of a kind referred to in Class Order 98/0100, 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.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period. The Group's assessment of the impact of these new standards and interpretations which will be applicable to the Group are set out below.

### **AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015)**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The standard will have no significant impact on the Group's accounting for financial assets or financial liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided when to adopt AASB 9.

### **AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2013)**

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. The Group does not expect the new standard to have an impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. This standard does not impact the Group.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Group's investments.

The Group does not expect to adopt the new standards before their operative date. They will therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

### **AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)**

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. The Group will adopt the new standard from its operative date, which means that it will be applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## **(aa) 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.

### **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.

## **(ab) 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.

The Group holds the following financial instruments:

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash (Note 10)	<b>1,666</b>	1,253
Receivables (Note 11)	<b>56,762</b>	55,550
Derivative financial instruments (Note 13)	<b>5,258</b>	95
	<b>63,686</b>	56,898
<b>Financial liabilities</b>		
Payables (Note 18)	<b>38,874</b>	30,130
Borrowings (Notes 19 and 21)	<b>71,255</b>	77,919
Derivative financial instruments (Note 13)	<b>2,061</b>	4,215
Contingent consideration (Note 20)	<b>9,040</b>	-
	<b>121,230</b>	112,264

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Derivative financial instruments in the above table, which are used purely for hedging purposes, are measured and recognised at fair value and are included in level 2 of the fair value measurement hierarchy.

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 at the end of the reporting period.

The contingent consideration is included in level 3 of the fair value measurement hierarchy. The fair value is determined using unobservable inputs.

### (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% (2012: 100%) of projected purchases qualified as "highly probable" forecast transactions for hedge accounting purposes.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	\$'000								
	USD	NZD	EURO	GBP	CAD	CHF	HKD	AUD	SNG
<b>30 June 2013 - Group</b>									
Receivables	882	189	-	130	-	-	-	866	-
Payables	227	4	134	317	-	-	332	802	-
Forward foreign exchange contracts									
Note 13 - buy foreign currency	8,162	1,263	4,486	-	-	-	-	346	639
Foreign currency options	86,970	-	2,216	-	-	-	-	-	-
<b>30 June 2012 - Group</b>									
Receivables	373	-	31	36	-	-	-	781	-
Payables	97	-	112	45	9	106	301	718	-
Forward foreign exchange contracts									
Note 13 - buy foreign currency	4,825	509	324	14	-	-	-	476	404
Foreign currency options	74,001	-	-	-	-	-	-	-	-

### Group Sensitivity

Based on the financial instruments held at 30 June 2013, 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 \$3,643,706 higher / \$2,925,706 lower (2012: \$1,993,000 higher / \$1,082,000 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 exposure to interest rate risk and the effective weighted average interest rate for classes of financial liabilities at balance date is set out below. Financial liabilities which are not listed below are not subject to interest rate risk.

	FLOATING INTEREST RATE \$'000	FIXED INTEREST RATE \$'000	TOTAL \$'000	WEIGHTED AVERAGE INTEREST RATE %
<b>2013</b>				
<b>Financial Liabilities</b>				
<b>Currency - Australian dollars</b>				
Bank loans	71,412	-	71,412	3.2
<b>Currency - New Zealand dollars</b>				
Bank overdraft	351	-	351	9.6
Notes 19 and 21	71,763	-	71,763	
<b>2012</b>				
<b>Financial Liabilities</b>				
<b>Currency - Australian dollars</b>				
Bank loans	77,800	-	77,800	3.6
<b>Currency - Hong Kong dollars</b>				
Bank overdraft	119	-	119	5.5
Notes 19 and 21	77,919	-	77,919	

Weighted average interest rates exclude the Group's credit margin. The floating rate terms are predominantly of 90 days maturity.

**NOTE 2. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Interest rate risk (continued)**

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 which was in place at the end of the previous year, and is still in place at 30 June 2013, has a commencement date of 1 July 2011, termination date of 30 August 2013 and covers an initial aggregate amount of \$57.6 million, reducing annually to an aggregate of \$45.6 million at 3 October 2012. The contract restricts interest rate exposure to 5.36% (excluding the Group's credit margin) for this portion of the debt.

An additional contract was entered into during the prior year and has a commencement date of 30 August 2013, termination date of 31 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).

**Group sensitivity**

At 30 June 2013, 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 \$ 633,500 higher / \$ 633,500 lower (2012: \$1,087,000 higher / \$1,118,000 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 \$135,150 lower / \$135,150 higher (2012: \$110,000 lower / \$110,000 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.

The maximum exposure to credit risk at balance date is the carrying amount of the financial assets as summarised in Note 2.

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.

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.

	2013 \$'000	2012 \$'000
<b>Financing Arrangements</b>		
The Group has available to it a committed financing facility of \$110,769,000 at 30 June 2013. As at the end of the financial year \$71,763,000 of these facilities were utilised. Facilities in the main are able to be transferred between the parent entity and other members of the Group. Interest rates on all facilities are variable.		
<b>Total facilities</b>		
Bank overdrafts	1,667	1,630
Bank loan facilities	109,102	101,000
	<b>110,769</b>	<b>102,630</b>
<b>Used at balance date</b>		
Bank overdrafts	351	119
Bank loan facilities	71,412	77,800
	<b>71,763</b>	<b>77,919</b>
<b>Unused at balance date</b>		
Bank overdrafts	1,316	1,511
Bank loan facilities	37,690	23,200
	<b>39,006</b>	<b>24,711</b>

The bank loan facilities are available under a committed amortising financing facility with the Group's financiers. The above facilities include a \$15,000,000 acquisition facility where access to the funds are subject to approval by the Group's Financiers. At 30 June 2013 the Group had not drawn down on this facility. Refer to Note 21 for further information regarding the facilities.

### Maturity of financial liabilities

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

	LESS THAN 1 YEAR \$'000	BETWEEN 1 & 2 YEARS \$'000	BETWEEN 2 & 4 YEARS \$'000	TOTAL CONTRACTUAL CASH FLOWS \$'000	CARRYING AMOUNT \$'000
<b>30 JUNE 2013 – GROUP</b>					
<b>Non-derivatives</b>					
Non-interest bearing liabilities (Note 18)	38,874	-	-	38,874	38,874
Interest bearing liabilities (Notes 19 and 21)	7,037	12,002	62,687	81,726	71,255
	45,911	12,002	62,687	120,600	110,129
<b>Derivatives (Note 13)</b>					
Interest rate contracts	764	575	672	2,011	2,011
<b>Total derivative financial instrument liabilities</b>	<b>764</b>	<b>575</b>	<b>672</b>	<b>2,011</b>	<b>2,011</b>

	LESS THAN 1 YEAR \$'000	BETWEEN 1 & 2 YEARS \$'000	BETWEEN 2 & 4 YEARS \$'000	TOTAL CONTRACTUAL CASH FLOWS \$'000	CARRYING AMOUNT \$'000
<b>30 JUNE 2012 – GROUP</b>					
<b>Non-derivatives</b>					
Non-interest bearing liabilities (Note 18)	30,130	-	-	30,130	30,130
Interest bearing liabilities (Notes 19 and 21)	5,856	77,240	-	83,096	77,919
	35,986	77,240	-	113,226	108,049
<b>Derivatives (Note 13)</b>					
Forward foreign exchange contracts - inflow	(6,552)	-	-	(6,552)	
Forward foreign exchange contracts - outflow	6,561	-	-	6,561	
	9	-	-	9	9
Interest rate contracts	993	524	931	2,448	2,448
Foreign currency options	3,172	-	-	3,172	1,663
<b>Total derivative financial instrument liabilities</b>	<b>4,174</b>	<b>524</b>	<b>931</b>	<b>5,629</b>	<b>4,120</b>

	2013 \$'000	2012 \$'000
<b>NOTE 3. OPERATING LOSS FROM CONTINUING OPERATIONS</b>		
<b>(a) Expenses</b>		
Materials and consumables used	162,282	146,485
Employee costs	45,619	44,586
Rental expenses relating to operating leases	6,785	6,743
Amortisation of other intangibles	251	242
Depreciation/other amortisation	2,438	2,446
Advertising and promotional	15,038	13,080
Repairs and maintenance	288	269
Cartage and freight	17,196	14,423
Restructure costs	1,581	365
Time value in option hedging contracts	(1,762)	(927)
Other expenses	24,487	17,243
Impairment of intangible assets	50,000	-
<b>Total expenses from continuing operations</b>	<b>324,203</b>	<b>244,955</b>
<b>(b) Loss before income tax expense from continuing operations includes the following net expenses and gains:</b>		
<b>Expenses</b>		
<i>Depreciation/amortisation:</i>		
Plant and equipment	2,427	2,434
Leasehold improvements	11	12
	<b>2,438</b>	<b>2,446</b>
<i>Amortisation:</i>		
Other intangibles	251	242
<b>Total depreciation and amortisation</b>	<b>2,689</b>	<b>2,688</b>
<i>Rental expenses relating to operating leases:</i>		
Minimum lease payments	6,345	6,508
Contingent rentals	440	235
<b>Total rental expenses relating to operating leases</b>	<b>6,785</b>	<b>6,743</b>
<i>Other charges (credits) against assets:</i>		
Bad and doubtful debts - trade debtors	4	(9)
Provision for stock obsolescence	1,361	665
<b>Total other charges (credits) against assets</b>	<b>1,365</b>	<b>656</b>
<i>Other provisions:</i>		
Employee entitlements	2,955	2,713
Employee incentives	188	493
Claims, returns and warranty	397	20
Restructure	-	(27)
Other	257	81
<b>Total other provisions</b>	<b>3,797</b>	<b>3,280</b>
<i>Other expenses:</i>		
Cost of goods sold	162,282	146,485
Loss on disposal of plant and equipment	52	3
Net exchange gains	(186)	(879)



	2013 \$'000	2012 \$'000
<b>(c) Significant items:</b>		
The Group's (loss)/profit from continuing operations after income tax includes the following items that are significant because of their nature or size:		
(a) Impairment of goodwill within the Australian business segment (Note 16)	<b>(45,000)</b>	-
Less: Applicable income tax benefits	-	-
	<b>(45,000)</b>	-
(b) Impairment of brandnames within the Australian business segment (Note 16)	<b>(5,000)</b>	-
Less: Applicable income tax benefits	<b>1,500</b>	-
	<b>(3,500)</b>	-
(c) Business combination contingent consideration adjustment (Note 31)	<b>3,500</b>	400
Less: Applicable income tax expense	-	-
	<b>3,500</b>	400
(d) Restructure costs	<b>(1,581)</b>	(365)
Less: Applicable income tax benefits	<b>457</b>	110
	<b>(1,124)</b>	(255)
(e) Acquisition costs	<b>(252)</b>	(90)
Less: Applicable income tax benefits	-	-
	<b>(252)</b>	(90)
Total significant items	<b>(48,333)</b>	(55)
Less: Applicable income tax benefits	<b>1,957</b>	110
	<b>(46,376)</b>	55

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 \$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 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.

#### **Contingent consideration adjustment**

During the current 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.

During the prior period the Group recognised a \$400,000 gain associated with the reassessment of the provision for contingent consideration relating to the Cosmex International Pty Ltd acquisition. The reassessment was based on the actual outcomes achieved during the year ended 30 June 2012. Refer to Note 31 for further information.

#### **Restructure costs**

The restructure costs recognised in the current year primarily relate to redundancy and inventory relocation costs associated with restructuring activities undertaken by the Group. The restructuring costs recognised in the prior year relate to redundancy costs.

#### **Acquisition costs**

Acquisition costs 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.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	2013 \$'000	2012 \$'000
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## NOTE 4. REVENUE FROM CONTINUING OPERATIONS

### Revenue from operating activities:

Sales revenue	299,189	276,246
<i>Other revenue:</i>		
Interest	64	39
Royalties	10	34
<b>Total revenue from continuing operations</b>	<b>299,263</b>	276,319

## NOTE 5. OTHER INCOME FROM CONTINUING OPERATIONS

Commissions	113	35
Contingent consideration adjustment	3,500	400
Sundry	233	229
<b>Total other income from continuing operations</b>	<b>3,846</b>	664

## NOTE 6. INCOME TAX

### (a) Income tax expense

Current tax	5,300	7,051
Deferred tax	(1,150)	(83)
Under provision in prior years	74	4
	<b>4,224</b>	6,972

Deferred income tax credit included in income tax expense comprises:

Decrease / (increase) in deferred tax assets (Note 17)	217	(104)
(Decrease) / increase in deferred tax liabilities (Note 23)	(1,367)	21
	<b>(1,150)</b>	(83)

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

Operating (loss) / profit before tax – continuing operations	(27,736)	26,058
Operating loss before tax – discontinued operation	-	(2,058)
Total operating (loss) / profit before tax	(27,736)	24,000
Tax at the Australian tax rate of 30% (2012: 30%)	(8,321)	7,200
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	13,500	-
Non-assessable contingent consideration adjustment	(1,050)	(120)
Tax rate differences in overseas entities	(354)	(327)
Share of net profit of associate	-	(31)
Share-based payments expense	50	92
Under/(over) provision in prior years	74	4
Other	325	154
<b>Income tax expense</b>	<b>4,224</b>	6,972
Income tax expense is attributable to:		
Continuing operations	4,224	7,648
Discontinued operation	-	(676)
	<b>4,224</b>	6,972



	2013 \$'000	2012 \$'000
<b>(c) Amounts recognised directly in equity</b>		
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)	(221)	-
<b>(d) Tax expense/(benefit) relating to items of other comprehensive income</b>		
Cash flow hedges (Notes 17, 23)	1,627	(488)

**(e) Tax consolidation legislation**

McPherson's Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation effective 1 July 2002. The accounting policy is set out in Note 1(f).

The entities have entered into a Tax Sharing Agreement and a Tax Funding Agreement. Under the terms of the Tax Funding Agreement the wholly-owned entities reimburse McPherson's Limited for any current income tax payable by McPherson's Limited in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due.

The Tax Sharing Agreement limits the joint and several liability of the wholly-owned entities in the case of default by McPherson's Limited.

	2013 \$'000	2012 \$'000
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**NOTE 7. DIVIDENDS**

Details of dividends declared during the year ended 30 June 2013 are as follows:

Final 30 June 2012 dividend of 7.0 cents per fully paid share (2011: 14.0 cents per fully paid share) fully franked @ 30%	5,068	10,136
Interim 2013 dividend of 10.0 cents per fully paid share (2012: 10.0 cents per fully paid share) fully franked @ 30%	8,401	7,240
<b>Total dividends</b>	<b>13,469</b>	<b>17,376</b>

**Dividends not recognised at year end**

In addition to the above dividends, since the year end Directors have declared a fully franked final dividend of 7.0 cents per fully paid share (2012: 7.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 12 November 2013 but not recognised as a liability at year end is:

6,251	5,068
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**Franked Dividends**

Franked dividends paid after 30 June 2013 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 2014.

Franking credits available for subsequent financial years based on a tax rate of 30%	24,724	26,090
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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 (DRP) was reactivated, with a discount of 2.5%, with effect from the final dividend for the 30 June 2012 financial year, and continues to operate.

	2013 \$	2012 \$
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**NOTE 8. AUDITORS' REMUNERATION**

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 <i>Corporations Act 2001</i>	<b>290,000</b>	273,000
Overseas affiliates of PricewaterhouseCoopers Australian firm	<b>42,000</b>	30,700
Non PricewaterhouseCoopers audit firms	<b>25,274</b>	23,582
<b>Total remuneration for audit services</b>	<b>357,274</b>	327,282

**2. Other assurance services**

PricewaterhouseCoopers Australian firm:		
Other assurance services associated with Printing demerger	-	50,000
Review of rent certificates	<b>5,800</b>	5,500
Overseas affiliates of PricewaterhouseCoopers Australian firm:		
Financial statements preparation	<b>3,000</b>	3,000
Other assurance services - Hong Kong	<b>16,849</b>	-
Non PricewaterhouseCoopers audit firms:		
Audit of pension plans	-	499
<b>Total remuneration for other assurance services</b>	<b>25,649</b>	58,999

**3. Other services**

Consulting services associated with remuneration review	<b>24,000</b>	-
Consulting services associated with due diligence review	<b>65,000</b>	-
Consulting services associated with Printing demerger	-	375,000
<b>Total remuneration for assurance and other services</b>	<b>471,923</b>	761,281

**NOTE 9. KEY MANAGEMENT PERSONNEL**

**Key management personnel compensation**

Short-term employee benefits	<b>2,044,895</b>	2,064,839
Post-employment benefits	<b>149,170</b>	210,699
Long-term benefits	<b>29,906</b>	7,528
Share-based payments	<b>90,642</b>	200,708
Termination benefits	-	714,408
	<b>2,314,613</b>	3,198,182

Detailed remuneration disclosures are provided in the Remuneration Report contained within the Directors' Report, which is on pages 25 to 34 of the Annual Report.

## Equity instrument disclosures relating to key management personnel

### Options provided as remuneration and shares issued on exercise of options

Details of options provided as remuneration and shares issued on the exercise of options, together with terms and conditions of the options, can be found in the Remuneration Report on pages 25 to 34 of the Directors' Report.

### Option holdings

The number of options over ordinary shares in the Company held during the financial year by each Director of McPherson's Limited and other key management personnel of the Group, including their personally related entities, are set out below:

#### 2013

NAME	BALANCE AT THE START OF THE YEAR	GRANTED AS REMUNERATION	EXERCISED	OTHER CHANGES	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
<i>Director of McPherson's Limited</i>							
P.J. Maguire	750,000	-	-	-	750,000	750,000	-
<i>Other key management personnel of the Group</i>							
S.K.S. Chan	150,000	-	-	-	150,000	-	150,000
G.P. Mitchell	75,000	-	-	-	75,000	-	75,000
C. J. Muir <sup>1</sup>	-	-	-	-	-	-	-
P. Witheridge	200,000	-	-	-	200,000	-	200,000

1 Mr Muir was appointed Global Supply Chain Director on 2 July 2012.

#### 2012

NAME	BALANCE AT THE START OF THE YEAR	GRANTED AS REMUNERATION	EXERCISED	OTHER CHANGES	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
<i>Director of McPherson's Limited</i>							
P.J. Maguire	750,000	-	-	-	750,000	750,000	-
<i>Other key management personnel of the Group</i>							
S.K.S. Chan	150,000	-	-	-	150,000	-	150,000
P.R. Bennett <sup>1</sup>	-	-	-	-	-	-	-
A.E. Fahy <sup>2</sup>	-	-	-	-	-	-	-
G.P. Mitchell	75,000	-	-	-	75,000	-	75,000
P. Witheridge <sup>3</sup>	200,000	-	-	-	200,000	-	200,000

1 Mr Bennett retired as Chief Financial Officer and as an employee of the Group on 30 November 2011.

2 Mr Fahy ceased being an employee of the Group on 31 January 2012 as a result of the demerger of the Group's printing business.

3 Mr Witheridge was appointed Chief Financial Officer and Company Secretary with effect from 1 December 2011.

**NOTE 9. KEY MANAGEMENT PERSONNEL (CONTINUED)**

**Equity instrument disclosures relating to key management personnel (continued)**

**Share holdings**

The number of ordinary shares in the Company held during the financial year by each Director of McPherson's Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

**2013**

<b>NAME</b>	<b>BALANCE AT THE START OF THE YEAR</b>	<b>RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS</b>	<b>OTHER CHANGES DURING THE YEAR</b>	<b>BALANCE AT THE END OF THE YEAR</b>
<i>Directors of McPherson's Limited</i>				
D.J. Allman	500,193	-	11,903	512,096
P.J. Maguire	1,250,143	-	-	1,250,143
J.P. Clifford	-	-	-	-
G.A. Cubbin	10,000	-	-	10,000
A.M Lacaze	11,500	-	7,142	18,642
<i>Other key management personnel of the Group</i>				
S.K.S. Chan	-	-	-	-
G.P. Mitchell	-	-	-	-
C. J. Muir <sup>1</sup>	-	-	-	-
P. Witheridge	8,000	-	-	8,000

1. Mr Muir was appointed Global Supply Chain Director on 2 July 2012.

**2012**

<b>NAME</b>	<b>BALANCE AT THE START OF THE YEAR</b>	<b>RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS</b>	<b>OTHER CHANGES DURING THE YEAR</b>	<b>BALANCE AT THE END OF THE YEAR</b>
<i>Directors of McPherson's Limited</i>				
S.A. Rowell <sup>1</sup>	217,523	-	(217,523)	-
P.J. Maguire	1,250,143	-	-	1,250,143
D.J. Allman	500,193	-	-	500,193
J.P. Clifford	-	-	-	-
P.D.J. Landos <sup>2</sup>	-	-	-	-
G.A. Cubbin	10,000	-	-	10,000
A.M Lacaze <sup>3</sup>	-	-	11,500	11,500
<i>Other key management personnel of the Group</i>				
S.K.S. Chan	-	-	-	-
P.R. Bennett <sup>4</sup>	5,835	-	(5,835)	-
A.E. Fahy <sup>5</sup>	746	-	(746)	-
G.P. Mitchell	-	-	-	-
P. Witheridge <sup>6</sup>	8,000	-	-	8,000

1. Mr Rowell retired as Chairman and as a Director on 18 November 2011.

2. Mr Landos retired as a Director on 18 November 2011.

3. Ms Lacaze was appointed as a Director with effect from 22 September 2011.

4. Mr Bennett retired as Chief Financial Officer and as an employee of the Group on 30 November 2011.

5. Mr Fahy ceased being an employee of the Group on 31 January 2012 as a result of the demerger of the Group's printing business.

6. Mr Witheridge was appointed Chief Financial Officer and Company Secretary with effect from 1 December 2011.

### 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.

	2013 \$'000	2012 \$'000
<b>NOTE 10. CURRENT ASSETS - CASH</b>		
Cash on hand	10	13
Cash at bank and on deposit (at call)	1,656	1,240
	<b>1,666</b>	<b>1,253</b>
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	1,666	1,253
Less: Bank overdrafts (Note 19)	(351)	(119)
Bank loans (Note 19)	-	(1,300)
<b>Cash balance per statement of cash flows</b>	<b>1,315</b>	<b>(166)</b>

### Interest rate risk exposure

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets at balance date is set out below. Financial assets which are not listed below are not subject to interest rate risk.

2013	INTEREST BEARING (FLOATING RATE) \$'000	WEIGHTED AVERAGE INTEREST RATE %	NON-INTEREST BEARING \$'000	TOTAL \$'000
<b>Financial Assets</b>				
<b>Cash and Deposits</b>				
Currency - Australian dollars	239	0.05	500	739
Currency - United States dollars	134	0.01	420	554
Currency - Pounds sterling	-	-	7	7
Currency - Singapore	-	-	256	256
Currency - Hong Kong dollars	-	-	100	100
	<b>373</b>		<b>1,283</b>	<b>1,656</b>
<hr/>				
2012	INTEREST BEARING (FLOATING RATE) \$'000	WEIGHTED AVERAGE INTEREST RATE %	NON-INTEREST BEARING \$'000	TOTAL \$'000
<b>Financial Assets</b>				
<b>Cash and Deposits</b>				
Currency - Australian dollars	584	0.3	-	584
Currency - United States dollars	132	-	358	490
Currency - Pounds sterling	-	-	6	6
Currency - Singapore	-	-	154	154
Currency - Hong Kong dollars	-	-	6	6
	716		524	1,240

Non-interest bearing cash and deposits represent clearing accounts.

	2013 \$'000	2012 \$'000
<b>NOTE 11. CURRENT ASSETS - RECEIVABLES</b>		
Trade receivables	<b>53,670</b>	53,222
Provision for impairment	<b>(62)</b>	(25)
	<b>53,608</b>	53,197
Other receivables/prepayments	<b>3,154</b>	2,353
	<b>56,762</b>	55,550
Movements in the provision for impairment of trade receivables are as follows:		
Balance at 1 July	<b>(25)</b>	(65)
Provisions for impairment recognised during the year	-	(1)
Written-off during the year as uncollectible	<b>14</b>	-
Unused amount reversed	-	10
Acquired through business combination	<b>(50)</b>	-
Provision demerged with Printing business	-	31
Foreign exchange	<b>(1)</b>	-
	<b>(62)</b>	(25)

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.

#### **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.

	2013 \$'000	2012 \$'000
Neither past due nor impaired	<b>36,636</b>	32,948
Past due, but not impaired:		
- less than 30 days	<b>13,045</b>	16,420
- 30 to 59 days	<b>3,337</b>	3,402
- 60 to 89 days	<b>482</b>	410
- 90 to 119 days	<b>78</b>	17
- 120 days or more	<b>30</b>	-
	<b>53,608</b>	53,197
Impaired	<b>62</b>	25
Gross carrying amount	<b>53,670</b>	53,222
Provision for impairment	<b>(62)</b>	(25)
Net carrying amount	<b>53,608</b>	53,197

#### **Credit risk concentration**

Two external customers represent \$14,059,000 (2012: \$11,576,000) and \$12,350,000 (2012: \$18,957,000) of the closing receivables balance. These debtor balances are in relation to the Australian business.



<b>2013</b>	<b>2012</b>
<b>\$'000</b>	<b>\$'000</b>

## NOTE 12. CURRENT ASSETS - INVENTORIES

Raw materials	<b>2,121</b>	1,477
Finished goods	<b>57,698</b>	45,673
Stock in transit	<b>9,915</b>	7,802
	<b>69,734</b>	54,952
Provision for inventory obsolescence	<b>(2,400)</b>	(2,020)
	<b>67,334</b>	52,932

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

Inventory recognised as expenses during the year ended 30 June 2013 amounted to \$162,282,000 (2012: \$167,482,000).

## NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS

### Current assets

Forward foreign exchange contracts - cash flow hedges	<b>793</b>	1
Foreign currency options - cash flow hedges	<b>4,465</b>	94
Total current derivative financial instrument assets	<b>5,258</b>	95

### Current liabilities

Interest rate contracts - cash flow hedges	<b>764</b>	993
Forward foreign exchange contracts - cash flow hedges	<b>-</b>	10
Foreign currency options - cash flow hedges	<b>50</b>	1,757
Total current derivative financial instrument liabilities	<b>814</b>	2,760

### Non-current liabilities

Interest rate contracts - cash flow hedges	<b>1,247</b>	1,455
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### (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 Note 2).

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

**(a)(i) Forward foreign exchange contracts – cash flow hedges**

The Group enters into forward foreign exchange contracts to hedge highly probable forecast purchases, sales, short-term loan repayments and capital commitments denominated in foreign currencies. The terms of these commitments are rarely more than eight months.

The following table sets out the gross Australian dollar equivalent value to be received/paid under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of contracts outstanding at balance date for the Group.

	2013 \$'000	WEIGHTED AVERAGE CONTRACTED EXCHANGE RATE	2012 \$'000	WEIGHTED AVERAGE CONTRACTED EXCHANGE RATE
<b>Maturity 0 – 6 months</b>				
<b>Sell Australian dollars/Buy:</b>				
United States dollars	2,752	0.9947	2,368	1.0073
New Zealand dollars	1,263	1.1880	509	1.2775
Singapore dollars	639	1.1740	404	1.2865
Euro	3,180	0.7499	-	-
<b>Sell New Zealand dollars/Buy:</b>				
United States dollars	110	0.8102	2,457	0.7959
Euro	141	0.6166	311	0.6134
Australian dollars	346	0.8372	476	0.7769
Pounds sterling	-	-	14	0.4779
<b>Sell Singapore dollars/Buy:</b>				
Euro	-	-	13	0.6266
<b>Maturity 6 – 12 months</b>				
<b>Sell Australian dollars/Buy:</b>				
Euro	715	0.699	-	-
<b>Sell New Zealand dollars/Buy:</b>				
United States dollars	5,300	0.8114	-	-
Euro	450	0.6138	-	-

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.

**Group**

At balance date these contracts were in a net asset position of \$793,000 (2012: liability of \$9,000).

**(a)(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 2013 to February 2014.

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.

**Group**

At balance date these contracts were a net asset of \$4,415,000 (2012: liability of \$1,663,000).

**(a)(iii) Interest rate swap contracts - cash flow hedges**

The Group has entered into a number of hedge contracts to limit the exposure of possible increases in interest rates. Refer to Note 2.

**(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 and option contracts 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.

2013  
\$'000

2012  
\$'000

## NOTE 14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

Shares in associate - -

### Shares in associate

#### (i) Movements in carrying amount

Carrying amount at the beginning of the financial year	-	1,249
Share of profit after income tax	-	104
Dividends received	-	(100)
Share of other changes	-	(1)
Distribution to owners - Printing demerger	-	(1,252)
<b>Carrying amount at the end of the financial year</b>	<b>-</b>	<b>-</b>

#### (ii) Share of associate's profit or loss

Profit before income tax	-	148
Income tax expense	-	(44)
<b>Profit after income tax</b>	<b>-</b>	<b>104</b>

#### (iii) Summarised financial information of associate

	GROUP'S SHARE OF:			
	ASSETS \$'000	LIABILITIES \$'000	REVENUES \$'000	PROFITS \$'000
2013	-	-	-	-
2012	-	-	1,228	104

2013  
\$'000

2012  
\$'000

## NOTE 15. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

### Leasehold improvements:

At cost	274	263
Accumulated amortisation	(211)	(194)
<b>Total leasehold improvements</b>	<b>63</b>	<b>69</b>

### Plant and equipment:

At cost	31,097	27,953
Accumulated depreciation	(23,493)	(20,946)
<b>Total plant and equipment</b>	<b>7,604</b>	<b>7,007</b>
<b>Total property, plant and equipment</b>	<b>7,667</b>	<b>7,076</b>

**NOTE 15. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT  
(CONTINUED)**

**(a) Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out below:

	FREEHOLD LAND AND BUILDINGS \$'000	LEASEHOLD IMPROVEMENTS \$'000	PLANT AND EQUIPMENT \$'000	TOTAL \$'000
Carrying amount at 1 July 2011	4,205	82	19,426	23,713
Additions	232	2	7,357	7,591
Acquisition of businesses	-	-	124	124
Disposals	-	-	(30)	(30)
Depreciation/amortisation expense	(130)	(13)	(4,121)	(4,264)
Distribution to owners – Printing demerger	(4,307)	(3)	(15,758)	(20,068)
Foreign currency exchange differences	-	1	9	10
Carrying amount at 30 June 2012	-	69	7,007	7,076
Additions	-	-	<b>2,399</b>	<b>2,399</b>
Acquisition of businesses	-	-	<b>680</b>	<b>680</b>
Disposals	-	-	<b>(117)</b>	<b>(117)</b>
Depreciation expense	-	<b>(11)</b>	<b>(2,427)</b>	<b>(2,438)</b>
Foreign currency exchange differences	-	<b>5</b>	<b>62</b>	<b>67</b>
<b>Carrying amount at 30 June 2013</b>	<b>-</b>	<b>63</b>	<b>7,604</b>	<b>7,667</b>

**(b) Leased assets**

During the prior year the Group's printing business acquired \$3,069,000 of plant and equipment assets via finance lease. These assets were subsequently distributed to owners on 31 January 2012 as part of the demerger of the printing business.

**(c) Non-current assets pledged as security**

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

	2013 \$'000	2012 \$'000
Goodwill	<b>124,641</b>	137,992
Other intangibles	<b>5,066</b>	4,437
Accumulated amortisation	<b>(4,258)</b>	(4,007)
	<b>808</b>	430
Brandnames	<b>42,655</b>	45,564
<b>Total intangibles</b>	<b>168,104</b>	183,986

**NOTE 16. NON-CURRENT ASSETS – INTANGIBLES**

## 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 1 July 2011	133,432	672	45,059	179,163
Additions	-	-	505	505
Acquisition of businesses	4,440	-	-	4,440
Amortisation charge	-	(242)	-	(242)
Foreign currency exchange differences	120	-	-	120
Carrying amount at 30 June 2012	137,992	430	45,564	183,986
Additions	<b>453</b>	<b>514</b>	<b>579</b>	<b>1,546</b>
Acquisition of businesses	<b>32,274</b>	<b>115</b>	-	<b>32,389</b>
Transfers	<b>(1,512)</b>	-	<b>1,512</b>	-
Impairment charge	<b>(45,000)</b>	-	<b>(5,000)</b>	<b>(50,000)</b>
Amortisation charge	-	<b>(251)</b>	-	<b>(251)</b>
Foreign currency exchange differences	<b>434</b>	-	-	<b>434</b>
<b>Carrying amount at 30 June 2013</b>	<b>124,641</b>	<b>808</b>	<b>42,655</b>	<b>168,104</b>

Acquired brandnames are not amortised under AASB 138, as Directors consider these to have an indefinite life. These brandnames are subject to an annual impairment test.

During the year the acquisition accounting associated with the Cosmex International acquisition was finalised. As a result, \$1,512,000 of brandname intangible assets were transferred from Goodwill and separately recognised as brandname assets. These brandnames have been assessed as having an indefinite useful life. In accordance with Australian Accounting Standards the Group's Goodwill balance increased by \$453,000 during the year as a result of recognising the required deferred tax liability associated with the Cosmex brandnames.

During the year the Group acquired the Furi brandname globally. The acquisition agreement includes a contingent consideration arrangement whereby the Group may be required to pay the former owner an additional payment of between \$0 and \$867,000. At the time of acquisition management estimated the likely additional payment to be \$325,000. A contingent consideration provision has been raised for this amount with the other side forming part of the cost of the brandname.

## Impairment Testing

### Goodwill

Goodwill is allocated to the following cash generating units:

	2013 \$'000	2012 \$'000
Australia (excluding Home Appliances)	<b>94,160</b>	133,360
Home Appliances	<b>25,514</b>	-
New Zealand	<b>4,967</b>	4,632
	<b>124,641</b>	137,992

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.

**NOTE 16. NON-CURRENT ASSETS – INTANGIBLES (CONTINUED)**

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

	<b>2013</b>	<b>2012</b>
Estimated growth rates	<b>3.0%</b>	3.0%
Post-tax discount rate	<b>11.5%</b>	11.5%
Pre-tax discount rate equivalent – Australia, Home Appliances	<b>15.1%</b>	15.1%
Pre-tax discount rate equivalent – New Zealand	<b>14.7%</b>	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.

At 30 June 2013, the value-in-use calculations for both the Home Appliances and New Zealand business segments exceeded the carrying value of their net assets. The surplus amount within the Home Appliances calculation is \$9,193,000 (June 2012: Not applicable). The surplus amount within the New Zealand calculation is NZD\$14,978,000 (June 2012: NZD\$21,302,000).

**Impairment charge**

During the current 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 goodwill calculations was based on a value-in-use model. The impairment charge is 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 28 Segment information. The discount rate and other key assumptions used in the value-in-use calculations are disclosed above.

*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 cash generating unit (excluding Home Appliances) were to be 5.0% below the current estimated year one EBIT an additional impairment charge of \$11,496,000 would have been recognised.

If the post-tax discount rate used in the value-in-use calculation for the Australian (excluding Home Appliances) cash generating unit were to be 1.0 percentage point higher than management's estimate (12.5% instead of 11.5%) an additional impairment charge of \$9,644,000 would have been recognised.

If the terminal year growth rate used in the value-in-use calculation for the Australian (excluding Home Appliances) cash generating unit were to be 1.0 percentage point lower than management's estimate (2.0% instead of 3.0%) an additional impairment charge of \$4,816,000 would have been recognised.

As disclosed in Note 31, had the Group acquired Home Appliances at 1 July 2012 the Home Appliances business would have contributed an EBIT of approximately \$3,279,000 to the Group. If the year one EBIT amount used in the value-in-use calculation for Home Appliances were to be equivalent to this amount a possible impairment of approximately \$5,054,000 would arise.

There were no reasonably possible changes to key assumptions associated with the New Zealand cash generating unit that resulted in its recoverable amount being equal to or below its carrying value.

**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.

	<b>2013</b>	<b>2012</b>
Estimated growth rates	<b>3.0%</b>	3.0%
Post-tax discount rate	<b>11.5%</b>	11.5%
Pre-tax discount rate equivalent	<b>15.1%</b>	15.1%

At 30 June 2013, the total carrying value of brandnames tested using the value-in-use method was \$40,898,000 (2012: \$44,121,000). The value-in-use calculations for these brandnames exceeded their carrying values.

The fair value less costs to sell calculation is 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 on a discounted cash flow analysis of the future royalty stream which is based on financial budgets/forecasts covering a one year period. The calculation for the current year assumes sales growth rates, for those brands tested using this method, beyond the projected period range of 0.0% to 3.0% (June 2012: 3.0%) and a post-tax discount rate of 11.5% (June 2012: 11.5%), the equivalent pre-tax discount rate equating to 15.1% (June 2012: 15.1%).

At 30 June 2013, the total carrying value of brandnames tested using the 'relief from royalty' method was \$6,757,000 (2012: \$1,443,000). The recoverable amounts of the brandnames tested using this method were calculated to be \$5,000,000 below their carrying amounts and as such an impairment charge of \$5,000,000 has been recognised against these brandnames.

#### **Impairment charge**

During the current year the Group's Australian cash generating unit (excluding Home Appliances) recognised an impairment charge of \$5,000,000 against certain brandnames. The recoverable amounts used in these calculations were based upon fair value less costs to sell calculations using a 'relief from royalty approach'.

This impairment charge is included within the Australian reportable segment disclosed within Note 28 Segment information. The discount rate and other key assumptions used in the calculations are disclosed above.

#### **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, no brand impairment would arise for the brands tested using this method.

If the year one contribution margin percentages were 5.0 percentage points below the current estimates used in the value-in-use calculations, the recoverable amount of certain brands tested using this method would be \$6,859,000 below their current carrying amount.

If the terminal year growth rate used in the value-in-use calculations were to be 1.0 percentage point lower than management's estimate (2.0% instead of 3.0%) no brand impairment would arise for the brands tested using this method.

If the year one projected sales were 10.0% below the current estimate used in the relief from royalty calculation the recoverable amounts of the brands tested using this method would have been \$156,000 lower which would have resulted in an additional impairment charge of \$156,000 being recognised.

If the estimated royalty rates were 1.0 percentage point below the current estimates used in the relief from royalty calculation the recoverable amounts of the brands tested using this method would have been \$307,000 lower which would have resulted in an additional impairment charge of \$307,000 being recognised.

If the terminal year growth rate used in the relief from royalty calculations were to be 1.0 percentage point lower than management's estimate (2.0% instead of 3.0%), the total recoverable amount of the brands tested using this method would have been \$115,000 lower which would have resulted in an additional impairment charge of \$115,000 being recognised.

	2013 \$'000	2012 \$'000
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## **NOTE 17. NON-CURRENT ASSETS – DEFERRED TAX ASSETS**

The balance comprises temporary differences attributable to:

#### **Amounts recognised in profit or loss**

Trade receivables impairment	18	7
Employee benefits	1,892	1,800
Depreciation/amortisation	1,162	991
Inventory obsolescence	697	575
Claims and returns	61	67
Other provisions and accruals	806	526
Deferred gain	56	85
License fees	33	83
	<b>4,725</b>	<b>4,134</b>

#### **Amounts recognised directly in equity**

Transaction costs arising on share issues	254	92
Cash flow hedges	618	1,236
<b>Total temporary differences</b>	<b>5,597</b>	<b>5,462</b>

**NOTE 17. NON-CURRENT ASSETS - DEFERRED TAX ASSETS (CONTINUED)**

**MOVEMENTS**

	<b>CASH FLOW HEDGES \$'000</b>	<b>EMPLOYEE BENEFITS \$'000</b>	<b>DEPRECIATION \$'000</b>	<b>OBSOLESCENCE \$'000</b>	<b>TRANSACTION COSTS ARISING ON SHARE ISSUES \$'000</b>	<b>OTHER \$'000</b>	<b>TOTAL \$'000</b>
Opening balance at 1 July 2011	1,026	2,898	1,746	451	139	596	6,856
Credited/(charged) to profit or loss (Note 6)	(280)	(237)	420	34	-	167	104
Credited to equity	482	-	-	-	-	-	482
Amortisation of transaction costs on share issues	-	-	-	-	(47)	-	(47)
Acquired in business combinations (Note 31)	-	-	-	144	-	-	144
(Over)/under provision in prior years	-	(49)	54	-	-	47	52
Distribution to owners - Printing demerger	6	(814)	(1,231)	(55)	-	(42)	(2,136)
Foreign currency exchange differences	2	2	2	1	-	-	7
Closing balance at 30 June 2012	1,236	1,800	991	575	92	768	5,462
Credited/(charged) to profit or loss (Note 6)	<b>(484)</b>	<b>(72)</b>	<b>119</b>	<b>182</b>	-	<b>38</b>	<b>(217)</b>
Credited/(charged) to equity	<b>(134)</b>	-	-	-	<b>221</b>	-	<b>87</b>
Amortisation of transaction costs on share issues	-	-	-	-	<b>(59)</b>	-	<b>(59)</b>
Acquired in business combinations (Note 31)	-	<b>120</b>	-	<b>54</b>	-	<b>235</b>	<b>409</b>
(Over)/under provision in prior years	-	<b>38</b>	<b>52</b>	<b>(120)</b>	-	<b>(70)</b>	<b>(100)</b>
Foreign currency exchange differences	-	<b>6</b>	-	<b>6</b>	-	<b>3</b>	<b>15</b>
<b>Closing balance at 30 June 2013</b>	<b>618</b>	<b>1,892</b>	<b>1,162</b>	<b>697</b>	<b>254</b>	<b>974</b>	<b>5,597</b>

	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Deferred tax assets to be recovered within 12 months	<b>3,384</b>	3,292
Deferred tax assets to be recovered after more than 12 months	<b>2,213</b>	2,170
	<b>5,597</b>	5,462

**NOTE 18. CURRENT LIABILITIES - PAYABLES**

Trade payables	<b>24,637</b>	16,016
Other payables	<b>14,237</b>	14,114
	<b>38,874</b>	30,130

**NOTE 19. CURRENT LIABILITIES - BORROWINGS**

Bank overdraft (Note 10)	<b>351</b>	119
Bank loans	<b>2,000</b>	1,300
Other borrowings	<b>412</b>	-
Debt issue costs	<b>(359)</b>	-
	<b>2,404</b>	1,419

**Secured Liabilities**

Bank overdraft (Note 10)	<b>351</b>	119
Bank loans	<b>2,000</b>	1,300
	<b>2,351</b>	1,419

Details of the security relating to each of these liabilities is set out in Note 21.

Information regarding interest rate exposure is set out in Note 2.



<b>2013</b>	<b>2012</b>
<b>\$'000</b>	<b>\$'000</b>

## NOTE 20. CURRENT LIABILITIES - PROVISIONS

Employee entitlements	<b>5,469</b>	5,176
Contingent consideration	<b>9,040</b>	-
Claims, returns and warranty	<b>1,032</b>	238
Employee incentives	<b>312</b>	566
Other	<b>112</b>	105
	<b>15,965</b>	6,085

### (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 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 Notes 16 and 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:

	<b>CONTINGENT CONSIDERATION \$'000</b>	<b>CLAIMS, RETURNS AND WARRANTY \$'000</b>	<b>EMPLOYEE INCENTIVES \$'000</b>	<b>OTHER \$'000</b>
Carrying amount at 1 July 2012	-	238	566	105
Additional provisions charged to profit or loss	-	<b>397</b>	<b>305</b>	<b>257</b>
Provision created for / acquired through asset acquisitions / business combinations	<b>12,540</b>	<b>706</b>	-	-
Unused amounts reversed to profit or loss	<b>(3,500)</b>	-	<b>(117)</b>	-
Payments	-	<b>(311)</b>	<b>(457)</b>	<b>(250)</b>
Foreign currency exchange differences	-	<b>2</b>	<b>15</b>	-
<b>Carrying amount at 30 June 2013</b>	<b>9,040</b>	<b>1,032</b>	<b>312</b>	<b>112</b>

	2013 \$'000	2012 \$'000
<b>NOTE 21. NON-CURRENT LIABILITIES - BORROWINGS</b>		
<b>Secured liabilities</b>		
Bank loans - secured	69,000	76,500
Debt issue costs	(149)	-
	<b>68,851</b>	76,500

In December 2012, the Group refinanced its borrowing facilities. The new 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 new facilities provide an amortising core debt facility of \$81.0 million (3 year term), 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 \$8.0 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.

**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

	2013 \$'000	2012 \$'000
<b>(a) Assets pledged as security</b>		
<b>Fixed charge</b>		
Property, plant and equipment	7,603	6,999
Intangibles	167,228	183,184
<b>Total non-current assets pledged as security</b>	<b>174,831</b>	190,183
The following current assets are also pledged as security:		
<b>Fixed charge</b>		
Receivables	52,168	52,010
<b>Floating charge</b>		
Cash	1,272	1,092
Inventories	66,274	51,911
Receivables	2,398	1,771
Derivative financial instruments	5,258	95
<b>Total current assets pledged as security</b>	<b>127,370</b>	106,879
<b>Total assets pledged as security</b>	<b>302,201</b>	297,062

**NOTE 22. NON-CURRENT LIABILITIES - PROVISIONS**

Employee entitlements	949	828
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**2013**  
**\$'000**

**2012**  
**\$'000**

## NOTE 23. NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

### Amounts recognised in profit or loss

Prepayments	13	19
Brandnames	12,471	13,518
Depreciation	7	9
	<b>12,491</b>	13,546

### Amounts recognised directly in equity

Cash flow hedges	1,582	-
<b>Total temporary differences</b>	<b>14,073</b>	13,546
Deferred tax liabilities to be settled within 12 months	1,533	19
Deferred tax liabilities to be settled after more than 12 months	12,540	13,527
	<b>14,073</b>	13,546

### MOVEMENTS

	INVENTORIES \$'000	BRANDNAMES \$'000	CASH FLOW HEDGES \$'000	OTHER \$'000	TOTAL \$'000
Opening balance at 30 June 2011	134	13,518	-	44	13,696
Charged/(credited) to profit or loss (Note 6)	(19)	-	-	40	21
Distribution to owners - Printing demerger	(117)	-	-	(40)	(157)
Under/(over) provision in prior years	2	-	-	(16)	(14)
Opening balance at 30 June 2012	-	13,518	-	28	13,546
Charged/(credited) to profit or loss (Note 6)	-	<b>(1,500)</b>	<b>89</b>	<b>44</b>	<b>(1,367)</b>
Charged to equity	-	-	<b>1,493</b>	-	<b>1,493</b>
Transfer	-	<b>453</b>	-	-	<b>453</b>
Over provision in prior years	-	-	-	<b>(53)</b>	<b>(53)</b>
Foreign exchange	-	-	-	<b>1</b>	<b>1</b>
<b>Closing balance at 30 June 2013</b>	<b>-</b>	<b>12,471</b>	<b>1,582</b>	<b>20</b>	<b>14,073</b>

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

	2013 \$'000	2012 \$'000
Issued and paid up capital:		
89,294,198 (2012: 72,401,758) ordinary shares - fully paid	<b>139,117</b>	103,253

## NOTE 24. SHARE CAPITAL

### Movements in ordinary share capital

DATE	DETAILS	NUMBER OF SHARES	PRICE \$	\$'000
1 July 2011	Opening balance	72,401,758		129,338
31 January 2012	Distribution to owners - Printing demerger	-		(26,085)
30 June 2012	Closing balance	72,401,758		103,253
31 October 2012	Shares issued - Dividend reinvestment plan for 30 June 2012 final dividend	<b>704,875</b>	<b>1.75</b>	<b>1,235</b>
14 March 2013	Shares issued - Institutional placement	<b>10,909,091</b>	<b>2.20</b>	<b>24,000</b>
11 April 2013	Shares issued - Dividend reinvestment plan for 31 December 2012 interim dividend	<b>682,888</b>	<b>2.19</b>	<b>1,494</b>
15 April 2013	Shares issued - Share Purchase Plan	<b>4,595,586</b>	<b>2.10</b>	<b>9,651</b>
	Transaction costs associated with share issues	-		<b>(737)</b>
	Tax effect of share issue transaction costs recognised directly in equity	-		<b>221</b>
<b>30 June 2013</b>	<b>Closing Balance</b>	<b>89,294,198</b>		<b>139,117</b>

### Ordinary Shares

At 30 June 2013 there were 89,294,198 (2012: 72,401,758) ordinary fully paid issued shares.

Ordinary shares entitle the holder to participate in dividends of the Company in proportion to the number of and amounts paid on the 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.

### Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan (DRP) was reactivated, with a discount of 2.5%, with effect from the final dividend for the 30 June 2012 financial year, and continues to operate.

### Options

Information relating to the McPherson's Limited Employee Share/Option Purchase Plan, including details of options outstanding at the end of the financial year are set out in the Directors' Report.

### 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 shareholders' equity.

	2013 \$'000	2012 \$'000
Total borrowings (Note 19, 21)	<b>71,255</b>	77,919
Less: Cash assets (Note 10)	<b>(1,666)</b>	(1,253)
Net debt	<b>69,589</b>	76,666
Total shareholders' equity	<b>168,922</b>	172,642
Total capital	<b>238,511</b>	249,308
Gearing ratio	<b>29.2%</b>	30.8%

The Group has complied with the financial covenants of its borrowing facilities during the 2013 and 2012 reporting periods.



	2013 \$'000	2012 \$'000
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## NOTE 25. RESERVES AND RETAINED PROFITS

### (a) Reserves

Hedging reserve – cash flow hedges	2,161	(1,655)
Share-based payments reserve	1,281	1,116
Foreign currency translation reserve	(2,041)	(3,905)
	<b>1,401</b>	<b>(4,444)</b>
Hedging reserve – cash flow hedges:		
Balance 1 July	(1,655)	(538)
Revaluation - gross	4,559	(2,313)
Deferred tax (Note 17, 23)	(1,362)	694
Transfer to cost of sales - gross	(86)	360
Deferred tax (Note 17)	26	(102)
Transfer to finance costs - gross	970	367
Deferred tax (Note 17)	(291)	(110)
Distribution to owners – Printing demerger – gross	-	(19)
Distribution to owners – Printing demerger - deferred tax (Note 17)	-	6
Balance 30 June	<b>2,161</b>	<b>(1,655)</b>
<b>Share-based payments reserve:</b>		
Balance 1 July	1,116	811
Option expense	165	305
<b>Balance 30 June</b>	<b>1,281</b>	<b>1,116</b>
<b>Foreign currency translation reserve:</b>		
Balance 1 July	(3,905)	(4,454)
Currency translation differences arising during the year	1,864	549
<b>Balance 30 June</b>	<b>(2,041)</b>	<b>(3,905)</b>
<b>(b) Retained Profits</b>		
Balance 1 July	73,833	75,641
(Loss)/profit after tax	(31,960)	17,028
Dividends paid	(13,469)	(17,376)
Distribution to owners – Printing demerger	-	(1,460)
<b>Balance 30 June</b>	<b>28,404</b>	<b>73,833</b>

### (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.

	2013 \$'000	2012 \$'000
<b>NOTE 26. CONTRACTUAL COMMITMENTS FOR EXPENDITURE</b>		
<b>(a) Capital commitments</b>		
Aggregate capital expenditure contracted for at balance date, but not provided for in the accounts, due:		
Not later than one year	153	264
<b>(b) Lease commitments</b>		
<b>Operating leases</b>		
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	6,238	6,379
Later than one year but not later than five years	17,597	17,974
Later than five years	13,982	17,557
	<b>37,817</b>	41,910

**NOTE 27. 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 28. SEGMENT INFORMATION**

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

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

**Segment revenues**

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

Revenues of approximately \$77,803,731 (2012: \$67,862,000) and \$65,523,567 (2012: \$61,145,000) were derived from two external customers. These revenues were attributable to the Australian segment.

**Segment assets**

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



	AUSTRALIA \$'000	NEW ZEALAND \$'000	REST OF THE WORLD \$'000	INTERSEGMENT ELIMINATIONS \$'000	CONSOLIDATED \$'000
<b>2013</b>					
Sales to external customers	259,505	30,473	9,211	-	299,189
Inter-segment sales	1,792	1	114,916	(116,709)	-
<b>Total sales revenue</b>	<b>261,297</b>	<b>30,474</b>	<b>124,127</b>	<b>(116,709)</b>	<b>299,189</b>
Other revenue / income	3,572	60	224	-	3,856
<b>Total segment revenue and other income</b>	<b>264,869</b>	<b>30,534</b>	<b>124,351</b>	<b>(116,709)</b>	<b>303,045</b>
EBITDA before significant items	24,651	2,858	2,355	-	29,864
Depreciation and amortisation expense	(2,232)	(407)	(50)	-	(2,689)
<b>Segment result before significant items</b>	<b>22,419</b>	<b>2,451</b>	<b>2,305</b>	<b>-</b>	<b>27,175</b>
Significant items (refer Note 3 (c))	(48,162)	(50)	(121)	-	(48,333)
<b>Segment result including significant items</b>	<b>(25,743)</b>	<b>2,401</b>	<b>2,184</b>	<b>-</b>	<b>(21,158)</b>
Net borrowing costs					(6,578)
<b>Loss before income tax</b>					<b>(27,736)</b>
Income tax expense					(4,224)
<b>Loss after income tax</b>					<b>(31,960)</b>
<b>Segment assets</b>	<b>286,988</b>	<b>21,004</b>	<b>31,387</b>	<b>(26,991)</b>	<b>312,388</b>
<b>Total non-current assets (other than financial assets and deferred tax)</b>	<b>168,279</b>	<b>6,186</b>	<b>1,306</b>	<b>-</b>	<b>175,771</b>
<b>Additions to non-current assets (other than financial assets and deferred tax)</b>	<b>36,544</b>	<b>452</b>	<b>18</b>	<b>-</b>	<b>37,014</b>

	AUSTRALIA \$'000	NEW ZEALAND \$'000	REST OF THE WORLD \$'000	PRINTING (DISCONTINUED) \$'000	INTERSEGMENT ELIMINATIONS \$'000	CONSOLIDATED \$'000
<b>2012</b>						
Sales to external customers	236,860	30,010	9,376	26,527	-	302,773
Inter-segment sales	2,006	100	99,035	86	(101,227)	-
<b>Total sales revenue</b>	<b>238,866</b>	<b>30,110</b>	<b>108,411</b>	<b>26,613</b>	<b>(101,227)</b>	<b>302,773</b>
Other revenue / income	477	46	2,832	560	(2,618)	1,297
Share of net profit of associate	-	-	-	104	-	104
<b>Total segment revenue, other income and share of net profit of associate</b>	<b>239,343</b>	<b>30,156</b>	<b>111,243</b>	<b>27,277</b>	<b>(103,845)</b>	<b>304,174</b>
EBITDA before significant items	29,088	3,723	1,921	2,417	-	37,149
Depreciation and amortisation expense	(2,246)	(391)	(52)	(1,818)	-	(4,507)
<b>Segment result before significant items</b>	<b>26,842</b>	<b>3,332</b>	<b>1,869</b>	<b>599</b>	<b>-</b>	<b>32,642</b>
Significant items - Printing demerger	(2,619)	-	-	-	-	(2,619)
Other significant items (refer Note 3(c))	(55)	-	-	-	-	(55)
<b>Segment result including significant items</b>	<b>24,168</b>	<b>3,332</b>	<b>1,869</b>	<b>599</b>	<b>-</b>	<b>29,968</b>
Net borrowing costs						(5,968)
<b>Profit before income tax</b>						<b>24,000</b>
Income tax expense						(6,972)
<b>Profit after income tax</b>						<b>17,028</b>
<b>Segment assets</b>	<b>283,206</b>	<b>18,538</b>	<b>24,748</b>	<b>-</b>	<b>(20,138)</b>	<b>306,354</b>
<b>Total non-current assets (other than financial assets and deferred tax)</b>	<b>184,060</b>	<b>5,758</b>	<b>1,244</b>	<b>-</b>	<b>-</b>	<b>191,062</b>
<b>Additions to non-current assets (other than financial assets and deferred tax)</b>	<b>6,744</b>	<b>675</b>	<b>26</b>	<b>5,215</b>	<b>-</b>	<b>12,660</b>

**NOTE 29. EARNINGS PER SHARE**

	<b>2013 CENTS</b>	<b>2012 CENTS</b>
<b>Basic earnings per share</b>		
From continuing operations	<b>(41.4)</b>	25.4
From discontinued operation	-	(1.9)
Total basic earnings per share	<b>(41.4)</b>	23.5
Basic earnings per share from continuing operations excluding impairment	<b>21.4</b>	25.4
<b>Diluted earnings per share</b>		
From continuing operations	<b>(41.4)</b>	25.4
From discontinued operation	-	(1.9)
Total diluted earnings per share	<b>(41.4)</b>	23.5
Diluted earnings per share from continuing operations excluding impairment	<b>21.4</b>	25.4
<b>Reconciliation of earnings used in calculating earnings per share</b>		
	<b>2013 \$'000</b>	<b>2012 \$'000</b>
<i>Basic and diluted earnings per share</i>		
Profit from continuing operations (excluding impairment)	<b>16,540</b>	18,410
Impairment, net of tax, from continuing operations	<b>(48,500)</b>	-
Loss from discontinued operation	-	(1,382)
	<b>(31,960)</b>	17,028
<b>Weighted average number of shares used as the denominator</b>		
	<b>2013 NUMBER</b>	<b>2012 NUMBER</b>
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<b>77,203,558</b>	72,401,758
Potential ordinary shares	-	181,673
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<b>77,203,558</b>	72,583,431
Options that are not dilutive and are therefore not included in the calculation of diluted earnings per share	<b>1,525,000</b>	775,000

**Information concerning the classification of securities**

**Options**

Options granted to employees under the McPherson's Limited Employee Share/Option Purchase Plan (the Plan) 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 1,525,000 outstanding options are not included in the calculation of diluted earnings per share in the current year because they are anti dilutive for the year ended 30 June 2013. These options could potentially dilute basic earnings per share in the future.

In relation to dilutive options to acquire ordinary shares, the calculation of diluted earnings per share is performed by adding to the denominator only those potential shares that are deemed in accordance with Australian Accounting Standard AASB 133 to have been issued for no consideration. Assumed earnings from proceeds are not added to the numerator.

The number of shares deemed to have been issued for no consideration is the difference between the number of shares that would be issued at the exercise price and the number of shares that would be issued at the average market price using the actual proceeds that would be received upon exercise of the options.

No options have been included in the determination of basic earnings per share. Details relating to options are set out in the Directors' Report.

## NOTE 30. DISCONTINUED OPERATION

During the prior year, on 18 November 2011 the Group announced its intention to demerge its Printing business into a separate company. Subsequent to demerging, the Printing business completed an acquisition of the Opus Group, in order to create a substantial business services group with operations in Australia, New Zealand and Singapore, and was listed on the ASX.

The demerger was completed via a demerger distribution, which was satisfied by the Group distributing all its shares in the McPherson's Printing Group to the shareholders of McPherson's Limited.

On 16 January 2012, the shareholders of McPherson's Limited approved the demerger at an extraordinary general meeting and the demerger took place on 31 January 2012.

As a result of this transaction, and in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the Group's Printing business has been disclosed as a discontinued operation for the comparative year.

On 31 January 2012, the Group distributed its shares in the McPherson's Printing Group to the shareholders of McPherson's Limited. The fair value of the net assets distributed was \$27,545,000. The Group reflected the distribution through a combination of a reduction in share capital of \$26,085,000 and a dividend distribution of \$1,460,000.

The assets and liabilities distributed to owners during the prior year are set out below.

	<b>\$'000</b>
Cash	4,701
Receivables	6,531
Inventories	4,998
Derivative financial instruments	19
Other financial assets	1,252
Property, plant and equipment	20,068
Net deferred tax assets	1,979
Payables	(6,243)
Borrowings	(3,002)
Provisions	(2,713)
Carrying amount of net assets distributed	27,590
Fair value of net assets distributed	27,545
<b>Loss on distribution to owners</b>	<b>(45)</b>
	<b>7 MONTHS TO 31 JANUARY 2012 \$'000</b>
Revenue	26,527
Other income	664
Expenses	(26,592)
Borrowing costs	(37)
<b>Profit before income tax and significant items</b>	<b>562</b>
Income tax expense	(114)
<b>Profit after income tax before significant items</b>	<b>448</b>
<b>Significant items</b>	
Costs associated with demerger and subsequent acquisition of Opus	(2,550)
Loss on distribution to owners	(70)
Income tax benefit relating to significant items	790
<b>Loss of discontinued operation for the period</b>	<b>(1,382)</b>
Basic earnings per share (before significant items) – cents	0.6
Diluted earnings per share (before significant items) – cents	0.6
<b>Cash flow information</b>	
Net cash inflows from operating activities	1,690
Net cash outflows from investing activities	(2,644)
Net cash inflows from financing activities	5,139
<b>Net cash inflows for the period</b>	<b>4,185</b>

There were no discontinued operations in the current year.

**NOTE 31. BUSINESS COMBINATIONS**

**Current Period**

On 1 August 2012, the Group's Australian business acquired the business assets of Footcare International, a leading marketer and distributor 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 are as follows:

	<b>\$'000</b>
<b>Purchase consideration</b>	
Cash paid	4,582
Contingent consideration	3,500
<b>Total purchase consideration</b>	<b>8,082</b>

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

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

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.

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

**(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 AASB 3 Business Combinations, 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 \$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 has 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 has recognised a \$3,500,000 gain in the current year. This amount has been separately disclosed in Note 3 (c) Significant items.

**(ii) Revenue and profit contribution**

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 has been completely integrated into the Group's existing operations.

**(iii) Acquisition-related costs**

Acquisition-related costs of \$53,000 are included within other expenses in profit or loss and in operating cash flows in the statement of cash flows.

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 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:

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

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

	<b>FAIR VALUE '000</b>
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)
<b>Net identifiable assets acquired</b>	<b>1,521</b>
Add: Goodwill and other intangibles	25,514
<b>Net assets acquired</b>	<b>27,035</b>

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

	<b>\$'000</b>
<b>Purchase consideration – cash outflow</b>	
Cash consideration paid	18,320
Less: Cash acquired	(1,716)
<b>Outflow of cash to acquire subsidiary, net of cash acquired – investing activities</b>	<b>16,604</b>
<b>Repayment of subsidiary external borrowings upon acquisition – financing activities</b>	<b>6,132</b>
<b>Total outflow of cash as a result of acquisition, net of cash acquired</b>	<b>22,736</b>

**NOTE 31. BUSINESS COMBINATIONS (CONTINUED)**

**(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 has assessed its position with respect to this arrangement and has determined that the Group has 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 has estimated, at acquisition date, the expected amount to be paid to buy the remaining 17.79% of shares. This amount has been 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 has been raised.

**(ii) Revenue and profit contribution**

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. If the acquisition had occurred on 1 July 2012, the Home Appliances business would have contributed revenues of \$35,258,000 and an EBIT of approximately \$3,279,000 to the Group.

**(iii) Acquisition-related costs**

Acquisition-related costs of \$199,000 are included within other expenses in profit or loss and in operating cash flows in the statement of cash flows.

**Prior Period**

On 30 November 2011, the Group's New Zealand consumer products business acquired the business assets of Gainsborough Limited, a distributor of beauty related products within the New Zealand market, for \$A560,000.

On 20 January 2012, the Group's Australian consumer products business purchased the business assets of Cosmex International Pty Limited, a leading marketer and distributor of hair care and beauty products, for \$5,757,000.

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

	<b>\$'000</b>
<b>Purchase consideration</b>	
Total consideration for acquisition accounting purposes	6,717
Less: Contingent consideration not achieved	(400)
<b>Outflow of cash to acquire businesses – investing activities</b>	<b>6,317</b>

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

	<b>FAIR VALUE \$'000</b>
Inventories	1,884
Plant and equipment	124
Prepayments	124
Brandnames	1,512
Deferred tax asset	144
Deferred tax liability	(453)
<b>Net identifiable assets acquired</b>	<b>3,335</b>
Add: Goodwill	3,382
<b>Net assets acquired</b>	<b>6,717</b>

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

### (i) Contingent consideration

In accordance with AASB3 *Business Combinations*, where an acquisition agreement includes a contingent consideration agreement, 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.

Subsequent changes in the amount of contingent consideration do not affect the value of net assets acquired, rather these movements are recognised in profit or loss.

In accordance with these requirements, the Group has recognised a \$400,000 gain in the prior year in relation to adjustments made to the contingent consideration.

### (ii) Revenue and profit contribution

The acquired businesses contributed revenues of \$4,917,000 to the Group for the period from their acquisition dates to 30 June 2012. Net profit generated from these businesses for this period, as well as full year revenue and profit or loss, have not been separately disclosed as it is impracticable to calculate accurate amounts for these given differences in accounting policies and that these businesses have been completely integrated into the Group's existing operations.

## NOTE 32. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION
McPherson's Limited	Australia
<i>Controlled entities of McPherson's Limited</i>	
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.

All investments represent 100% ownership interest unless otherwise stated.

### Disposal of controlled entity

During the prior year the Group demerged its Printing business on 31 January 2012. As a result MPG Printing Limited (formerly Owen King Holdings Australia Pty Limited) and McPherson's Printing Pty Limited are no longer controlled entities of McPherson's Limited.

There were no disposals of entities during the current year.

**NOTE 33. RELATED PARTIES**

**Directors**

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

**Transactions with McPherson's Limited or its controlled entities**

Some current Directors of controlled entities of McPherson's Limited are associated with firms which derive income for services provided to the Group. These transactions are conducted on a commercial basis with conditions no more favourable than those available to outside parties.

Mr. J.B. Duncan and Ms. A. Hutcheson, who were Directors of a United States controlled entity during the year, are a principal and employee respectively in the law firm J.B. Duncan P.C. This firm renders legal advice to certain controlled entities.

**Directors' shares/options**

Transactions of Directors and Director related entities concerning shares or share options are set out in the Directors' Report.

All transactions relating to shares and dividends were on the same basis as similar transactions with other shareholders.

**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

**Related party transactions not reported elsewhere**

The aggregate amounts of transactions with related parties not reported elsewhere were as follows:

	2013	2012
	\$	\$
<b>Legal fees</b>		
J.B. Duncan P.C.	7,867	4,995

**Related party transactions and balances**

Related party transactions and balances are shown throughout the financial statements as follows:

	NOTE NUMBER
Key management personnel	9
Superannuation funds	34

**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 \$2,873,000 (2012: \$3,507,000).

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.

During the prior financial year, MPG Printing Limited (formerly Owen King Holdings Australia Pty Ltd) and McPherson's Printing Pty Ltd were removed as parties to the Deed of Cross Guarantee on 31 January 2012 as a result of the demerger of the Group's printing business.

### (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 2013 of the Closed Group.

	2013 \$'000	2012 \$'000
<b>Income statement</b>		
Revenue	254,727	268,091
Other income	3,794	1,224
Share of net profit in associate	-	104
Expenses	(284,012)	(242,078)
Finance costs	(6,989)	(6,334)
<b>(Loss) / profit before income tax</b>	<b>(32,480)</b>	21,007
Income tax expense	(2,702)	(5,611)
<b>(Loss) / profit after income tax</b>	<b>(35,182)</b>	15,396
<b>Summary of movements in consolidated retained profits</b>		
Retained profits at beginning of the financial year	55,514	58,954
(Loss)/profit after income tax for the year	(35,182)	15,396
Dividends provided paid	(13,469)	(17,376)
Distribution to owners - Printing demerger	-	(1,460)
<b>Retained profits at the end of the financial year</b>	<b>6,863</b>	55,514

**NOTE 35. DEED OF CROSS GUARANTEE (CONTINUED)**

**(b) Balance sheet**

Set out below is a consolidated balance sheet as at 30 June 2013 of the Closed Group.

	2013 \$'000	2012 \$'000
<b>Current assets</b>		
Cash	225	591
Receivables	53,167	49,712
Inventories	49,408	43,587
Derivative financial instruments	4,516	94
Current tax assets	134	-
<b>Total current assets</b>	<b>107,450</b>	<b>93,984</b>
<b>Non-current assets</b>		
Other financial assets	41,807	27,357
Property, plant and equipment	5,937	5,809
Deferred tax assets	4,824	5,144
Intangible assets	140,664	173,708
<b>Total non-current assets</b>	<b>193,232</b>	<b>212,018</b>
<b>Total assets</b>	<b>300,682</b>	<b>306,002</b>
<b>Current liabilities</b>		
Payables	37,532	42,089
Borrowings	2,460	1,300
Derivative financial instruments	814	2,760
Provisions	14,201	5,369
Current tax liabilities	-	454
<b>Total current liabilities</b>	<b>55,007</b>	<b>51,972</b>
<b>Non-current liabilities</b>		
Payables	11,815	3,219
Borrowings	68,851	76,500
Derivative financial instruments	1,247	1,455
Provisions	868	824
Deferred tax liabilities	13,958	13,804
<b>Total non-current liabilities</b>	<b>96,739</b>	<b>95,802</b>
<b>Total liabilities</b>	<b>151,746</b>	<b>147,774</b>
<b>Net assets</b>	<b>148,936</b>	<b>158,228</b>
<b>Equity</b>		
Share capital	139,117	103,253
Reserves	2,956	(539)
Retained profits	6,863	55,514
<b>Total equity</b>	<b>148,936</b>	<b>158,228</b>

2013  
\$'000

2012  
\$'000

## NOTE 36. NOTES TO THE STATEMENT OF CASH FLOWS

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

Operating (loss)/profit after income tax	<b>(31,960)</b>	17,028
Amortisation of other intangibles	<b>251</b>	242
Depreciation/other amortisation	<b>2,438</b>	4,265
Share-based payments expense	<b>165</b>	305
Impairment of goodwill and brandnames	<b>50,000</b>	-
Loss/(profit) on disposal of property, plant and equipment	<b>52</b>	(9)
Time value in option hedging contracts	<b>(1,762)</b>	(927)
Share of profit in associate not received as dividends or distributions	-	(104)
Dividends received from associate	-	100
Contingent consideration adjustment	<b>(3,500)</b>	(400)
Loss on demerger of the Printing business	-	45
Costs associated with Printing demerger	-	2,550
<b>Changes in operating assets and liabilities, excluding the effects from purchase or disposal of controlled entities:</b>		
Increase in payables	<b>2,178</b>	279
Decrease in other provisions	<b>(218)</b>	(1,608)
Increase/(decrease) in employee entitlements	<b>11</b>	(803)
Decrease in net tax liabilities	<b>(1,830)</b>	(4,500)
Decrease/(increase) in receivables	<b>3,391</b>	(3,906)
(Increase)/decrease in inventories	<b>(4,447)</b>	3,766
<b>Net cash inflow from operating activities</b>	<b>14,769</b>	16,323

## NOTE 37. EVENTS OCCURRING AFTER BALANCE DATE

On 1 July 2013, the Group's Australian business acquired the intellectual property assets (primarily brandname assets) and associated inventory of Maseur Sandals, a well known Australian footwear brand, for the value of \$5,043,000.

On 19 August 2013, the Directors of the Company declared a final dividend of 7.0 cents per share fully franked which is payable on 12 November 2013 (refer to Note 7).

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event, of a material and unusual nature likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

**NOTE 38. PARENT ENTITY FINANCIAL INFORMATION**

**(a) Financial information**

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

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Balance Sheet</b>		
Current assets	<b>5,473</b>	2,090
Total assets	<b>272,882</b>	220,251
Current liabilities	<b>13,005</b>	20,025
Total liabilities	<b>93,887</b>	100,324
<b>Shareholders' equity</b>		
Issued capital	<b>139,117</b>	103,253
Reserves - cash flow hedges	<b>1,675</b>	(1,655)
- share-based payments	<b>1,281</b>	1,116
Retained earnings	<b>36,922</b>	17,213
	<b>178,995</b>	119,927
<b>Profit after tax</b>	<b>33,179</b>	6,058
<b>Total comprehensive income</b>	<b>36,509</b>	4,664

**(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.



The shareholder information set out below was applicable at 30 August 2013.

## 1. Share Capital

As at 30 August 2013 the ordinary share capital in the Company was held by the following number of shareholders:

	SHARES	SHAREHOLDERS
	1 - 1,000	1,595
	1,001 - 5,000	1,715
	5,001 - 10,000	698
	10,001 - 100,000	837
	100,001 and over	50
	<b>TOTAL</b>	<b>4,895</b>
	Holding less than a marketable parcel	691

## 2. Voting Rights

Each ordinary share on issue entitles the holder to one vote.

## 3. Twenty Largest Shareholders as at 30 August 2013

	NO. OF SHARES	%
HSBC Custody Nominees (Australia) Limited	17,301,657	19.38
RBC Investor Services Australia Nominees Pty Limited <PIPOOLED A/C>	7,702,311	8.63
National Nominees Limited	6,685,874	7.49
RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	4,750,245	5.32
Citicorp Nominees Pty Limited	3,624,083	4.06
Aust Executor Trustees SA Ltd <Tea Custodians Limited>	3,310,046	3.71
J P Morgan Nominees Australia Limited	2,767,904	3.10
AMP Life Limited	1,707,516	1.91
BNP Paribas Noms Pty Ltd <DRP>	1,354,926	1.52
Mr Paul John Maguire	750,000	0.84
J P Morgan Nominees Australia Limited <Cash Income A/C>	623,348	0.70
RBC Investor Services Australia Nominees Pty Limited <PISELECT A/C>	531,787	0.60
Mrs Melinda Sue Maguire	500,143	0.56
Bond Street Custodians Limited <ZCERNA - D02137 A/C>	443,692	0.50
Mr Trevor Bruce Winston Ward	431,833	0.48
Equitas Nominees Pty Limited <3021524 A/C>	298,180	0.33
QIC Limited	293,201	0.33
Gatfield Pty Ltd (Rowell S/F A/C)	280,517	0.31
Mr Peter John Stirling & Mrs Rosalind Verena Stirling	260,000	0.29
Aircole Pty Limited <Macri Retirement Fund A/C>	259,533	0.29
	<b>53,876,796</b>	<b>60.34</b>
	89,294,198	100.00

## 4. Substantial Shareholders

The following is extracted from the Company's Register of Substantial Shareholders as at 30 August 2013:

	NO. OF SHARES	LAST NOTIFIED
Thistle Custodians Pty Ltd Group	11,678,908	29 April 2013
Perpetual Limited and subsidiaries	8,267,760	26 August 2013
Delta Lloyd Group N.V. and subsidiaries	7,563,674	20 June 2013
DFA Group	4,467,552	15 July 2013
Investors Mutual Limited	4,279,273	4 April 2013

## 5. Listing

McPherson's Limited shares are 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: [mccorp@mcphersons.com.au](mailto:mccorp@mcphersons.com.au)  
Website: [www.mcphersons.com.au](http://www.mcphersons.com.au)

### Company Secretaries

Philip R Bennett  
Paul Witheridge

### Auditors

PricewaterhouseCoopers  
Darling Park Tower 2  
201 Sussex St  
Sydney NSW 2000

### Solicitors

Thomsons 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

[web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)  
[www.computershare.com](http://www.computershare.com)

### 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).

Comprehensive information about your shareholding can be obtained on the internet at [www.computershare.com](http://www.computershare.com), or via the Company's website at [www.mcphersons.com.au](http://www.mcphersons.com.au)





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