McPherson's Limited
ABN: 98 004 068 419
Half Year ended 31 December 2016

Results for Announcement to the Market

				$000's
Revenue	down	11.4%	to	**149,136**
Profit before tax excluding significant items	down	10.9%	to	**11,034**
Profit after tax excluding significant items	down	10.8%	to	**7,879**
Loss before tax	down	174.1%	to	**(10,022)**
Loss after tax	down	217%	to	**(11,803)**
Loss after tax attributable to members	down	217%	to	**(11,803)**
Net loss for the period attributable to members	down	217%	to	**(11,803)**

Dividends	**Amount per security**	**Franked amount per security**
Interim dividend	**6.0¢**	**6.0¢**
Previous corresponding period	6.0¢	6.0¢

Payment date for interim dividend	**23 March 2017**
Record date for determining entitlements to the dividend	**6 March 2017**

McPherson's Limited
Directors' Report
For the half year ended 31 December 2016

The Board of Directors present the following 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 half year ended 31 December 2016.

(a) Directors

The following persons were Directors of McPherson's Limited during or since the half year period to the date of this report:

G.A. Cubbin
L. McAllister (appointed as Managing Director on 21 November 2016)
P.J. Maguire (retired as Managing Director on 21 November 2016)
A.M. Lacaze
J.M. McKellar
P.M. Payn

(b) Principal activities

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

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

(c) Review of operations

The company's first half improvement in underlying profit, driven by improved EBIT margins in our core Health, Wellness & Beauty brands, and the significant reduction in net debt has been achieved despite an adverse AUD/USD currency in comparison with last year. This result is a clear reflection of the strength and resilience of the company's brands and its earnings base. The company is in a very strong financial position, providing a solid platform for future growth.

Divisional performance

Our new Health, Wellness & Beauty division, which now includes our Multix, Swisspers, Footcare, Maseur and Moosehead brands, contributed 78% of Group revenue. The deliberate strategy to reduce sales of low margin agency and private label products led to a material improvement in margins across all key brands and a decrease in revenue of 7%. Margin growth was achieved through innovation led expansion of ranging and resetting of prices.

The market leading brand Manicare achieved significant revenue and contribution growth, while Swisspers and Lady Jayne, key brands within our Health, Wellness & Beauty portfolio, achieved solid contribution growth despite strong competition.

The more recently acquired A'kin natural skincare and haircare brand and the Trilogy natural skincare agency each continued to perform very well. Sales of the market leading cosmeceutical skincare brand Dr. LeWinn's were impacted by a decision to cease promotion of lower margin gift packs. The ensuing decline in volumes was offset by an improvement in contribution and EBIT margins from the brand.

Sales and contribution from Coty's fine fragrances (Gucci, Dolce & Gabbana and Hugo Boss) decreased by 10% and 1% respectively, a creditable result given the assignment of the distribution agreement from

McPherson's Limited
Directors' Report
For the half year ended 31 December 2016

Divisional performance (continued)
Proctor & Gamble to Coty and the withdrawal of Dolce & Gabbana from the new agreement. The company's successful key agency partnerships have recently been extended.

Sales declined in our Home Appliances division as the market adjusted to the closure of Masters. In addition delays in key building projects in affected Commercial sales. This division contributed 22% of Group revenue.

A reduction in forecast full year EBIT has led to a reassessment of the carrying value of intangible assets in the Home Appliances division, resulting in non-cash impairments of $7.0m and $5.0m in goodwill and brand names respectively. Continued range rationalisation has lead to the carrying value of the Revitanail brand and goodwill recorded in the Group's New Zealand operation being subject to non-cash impairments of $6.0m and $1.8m respectively. Management has well advanced plans to improve the profitability of these assets.

Business Development
The areas of key focus for growth will be:

- Re-invigorating existing brands;
- Incremental ranging in top six Australian customers;
- Leveraging under-utilised capacity through Partnerships;
- China development;
- International market development; and
- Digital Technology.

Cash flow, balance sheet and FX hedging
Strong operating cash flow, improved working capital efficiency and the divestment on 31 March 2016 of the remaining 49% interest in the Housewares joint venture, have led to a 56% reduction in net debt over the 12 months to 31 December 2016 to $40.9m (from $92.8m at 31 December 2015). The company's gearing ratio (net debt/total funds employed) has reduced from 46.4% to 30.4% over the same period.
The buyback of an additional $10m of fixed rate corporate bonds in November 2016, in combination with reduced debt levels will result in lower borrowing costs going forward.
The company's foreign exchange hedging policy remains unchanged, with estimated USD and Euro requirements for certain customers hedged 12 months forward and other customers hedged eight months forward, each on a rolling basis using options and foreign exchange contracts.

(d) Dividends
The Directors have recommended that an interim dividend (fully franked) of 6.0 cents per share be paid on 23 March 2017. This dividend was declared subsequent to the end of the half year period and therefore has not been recognised as a liability at 31 December 2016.

(e) Events subsequent to balance date
On 18 January 2017, the Group extinguished $15,000,000 fixed interest rate swaps.

On 7 February 2017, the Group refinanced its working capital facilities. The life of the facility is 2 years expiring on 28 February 2019. The following key changes have been made and are effective from 7 February 2017:

- The total leverage ratio must not exceed 3.50 times; and

- Total Shareholder's fund must be greater than $65,000,000.

The Group's facility is denominated in Australian dollars and the facility limit is $51,000,000. The facility no longer has a combined seasonal uplift. Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

McPherson's Limited

Directors' Report (continued)
For the half year ended 31 December 2016

(e) Events subsequent to balance date (continued)

On 20 February 2017, the Directors of the Company declared an interim dividend of 6.0 cents per share fully franked which is payable on 23 March 2017 (refer to Note 5).

Other than the matters discussed above, there has not arisen in the interval between the end of the half 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.

(f) Rounding

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

(g) Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 21st day of February 2017.

G. A. Cubbin	**L. McAllister**
Director	Director

pwc

Auditor's Independence Declaration

As lead auditor for the review of McPherson's Limited for the half-year ended 31 December 2016, 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

S.T. Maher

Shannon Maher
Partner
PricewaterhouseCoopers

Sydney
21 February 2017

McPherson's Limited
Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2016

	Note	**Half Year December 2016 $000's**	Half Year December 2015 $000's
Revenue			
Sales revenue		**149,102**	168,276
Interest		**34**	123
Total revenue		**149,136**	168,399
Commission		**-**	49
Contingent consideration adjustment		**-**	1,558
Gain on sale		**194**	-
Other income		**198**	179
Total revenue and other income		**149,528**	170,185
Expenses			
Materials and consumables used		**(86,481)**	(98,033)
Employee costs		**(20,532)**	(21,973)
Advertising and promotional		**(9,872)**	(11,301)
Cartage and freight		**(5,588)**	(7,230)
Third party warehousing		**(2,425)**	(3,055)
Rental expenses relating to operating leases		**(2,592)**	(2,814)
Depreciation		**(1,138)**	(1,039)
Amortisation of other intangibles		**(400)**	(287)
Restructure costs	2	**(780)**	(208)
Other expenses		**(6,745)**	(8,501)
Borrowing costs		**(3,197)**	(3,706)
Impairment of intangible assets	2	**(19,800)**	-
Share of net profit of associates accounted for using the equity method		**-**	1,491
(Loss) / profit before income tax expense		**(10,022)**	13,529
Income tax expense	6	**(1,781)**	(3,437)
(Loss) / profit for the half year		**(11,803)**	10,092

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

McPherson's Limited
Consolidated Statement of Comprehensive Income (continued)
For the half year ended 31 December 2016

	Note	**Half Year December 2016 $000's**	Half Year December 2015 $000's
(Loss) / profit for the half year		**(11,803)**	10,092
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**3,714**	(1,253)
Exchange differences on translation of foreign operations		**16**	1,028
Income tax (expense) / benefit relating to these items		**(1,111)**	334
Other comprehensive income for the half year		**2,619**	109
Total comprehensive (loss) / income for the half year		**(9,184)**	10,201

		Cents	Cents
Basic (loss) / earnings per share	11	(11.4)	10.4
Diluted (loss) / earnings per share	11	(11.4)	10.4

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

McPherson's Limited
Consolidated Balance Sheet
As at 31 December 2016

	Note	31 December 2016 $000's	30 June 2016 $000's
Current assets			
Cash and cash equivalents		**13,568**	16,490
Trade and other receivables		**43,634**	44,842
Inventories		**51,589**	59,787
Derivative financial instruments	3	**1,145**	-
Current tax assets		**367**	731
Total current assets		**110,303**	121,850
Non-current assets			
Property, plant and equipment		**5,422**	5,843
Intangible assets	8	**95,238**	115,139
Deferred tax assets		**4,888**	6,594
Total non-current assets		**105,548**	127,576
Total assets		**215,851**	249,426
Current liabilities			
Trade and other payables		**42,202**	48,810
Borrowings	9	**15,093**	17,503
Derivative financial instruments	3	**1,283**	3,207
Provisions		**8,289**	9,274
Current tax liabilities		**893**	463
Total current liabilities		**67,760**	79,257
Non-current liabilities			
Borrowings	9	**39,377**	48,886
Derivative financial instruments	3	**1,062**	1,905
Provisions		**932**	1,000
Deferred tax liabilities		**13,206**	13,893
Total non-current liabilities		**54,577**	65,684
Total liabilities		**122,337**	144,941
Net assets		**93,514**	104,485
Equity			
Contributed equity	10	**154,191**	154,042
Reserves		**3,387**	635
Accumulated losses		**(64,064)**	(50,192)
Total equity		**93,514**	104,485

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

McPherson's Limited
Consolidated Statement of Changes in Equity
For the half year ended 31 December 2016

	Contributed equity $000's	Reserves $000's	Accumulated losses $000's	Total equity $000's
Balance at 1 July 2016	**154,042**	**635**	**(50,192)**	**104,485**
Profit / (loss) for the half year	-	-	(11,803)	(11,803)
Other comprehensive income	-	2,619	-	2,619
Total comprehensive income	**-**	**2,619**	**(11,803)**	**(9,184)**
Transactions with shareholders				
Shares issued, net of transaction costs and tax	149	-	-	149
Dividends provided for or paid	-	-	(2,069)	(2,069)
Share-based payment transactions with employees	-	133	-	133
Total transactions with shareholders	149	133	(2,069)	(1,787)
Balance at 31 December 2016	**154,191**	**3,387**	**(64,064)**	**93,514**

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

McPherson's Limited
Consolidated Statement of Changes in Equity (continued)
For the half year ended 31 December 2016

	Contributed equity $000's	Reserves $000's	Accumulated losses $000's	Total equity $000's
Balance at 1 July 2015	**149,191**	**2,933**	**(53,386)**	**98,738**
Profit for the half year	-	-	10,092	10,092
Other comprehensive income	-	109	-	109
Total comprehensive income	**-**	**109**	**10,092**	**10,201**
Transactions with shareholders				
Shares issued, net of transaction costs and tax	223	-	-	223
Dividends provided for or paid	-	-	(1,947)	(1,947)
Share-based payment transactions with employees	-	87	-	87
Total transactions with shareholders	223	87	(1,947)	(1,637)
Balance at 31 December 2015	**149,414**	**3,129**	**(45,241)**	**107,302**

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

McPherson's Limited
Consolidated Statement of Cash Flows
For the half year ended 31 December 2016

	Note	Half Year December 2016 $000's	Half Year December 2015 $000's
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**164,712**	186,431
Payments to suppliers and employees (inclusive of GST)		**(148,854)**	(185,479)
Interest received		**34**	53
Interest and borrowing costs paid		**(2,672)**	(3,431)
Income taxes paid		**(1,006)**	(2,707)
Net cash inflows / (outflows) from operating activities		**12,214**	(5,133)
Cash flows from investing activities			
Payments for acquisition of business assets	13	**-**	(6,637)
Payments for purchase of property, plant and equipment		**(737)**	(1,854)
Payments for purchase of intangible assets		**(308)**	(327)
Proceeds from sale of business assets	2, 7	**194**	125
Proceeds from sale of property, plant and equipment		**27**	49
Net cash (outflows) from investing activities		**(824)**	(8,644)
Cash flows from financing activities			
Proceeds from borrowings		**34,817**	36,041
Repayment of borrowings		**(36,827)**	(15,345)
Bond buy-back		**(10,400)**	-
Dividends paid		**(1,916)**	(1,723)
Net cash (outflows) / inflows from financing activities		**(14,326)**	18,973
Net increase / (decrease) in cash held		**(2,936)**	5,196
Cash at beginning of the half year		**16,490**	11,283
Effects of exchange rate changes on cash		**14**	168
Cash at end of the half year		**13,568**	16,647

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

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

1. Significant Accounting Policies

McPherson’s Limited is a company domiciled in Australia. The consolidated interim financial report for the half year period ended 31 December 2016 comprises McPherson’s Limited and the entities it controlled at the end of, or during, the half year period (the “Group”).

(a) Basis of Preparation

This interim financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The Group is a for-profit entity for the purpose of preparing the interim financial statements. The report is presented in Australian dollars.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim report is to be read in conjunction with the Annual Report for the year ended 30 June 2016 and the announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period with the exception of the new policies noted below. The interim financial report has been prepared on the basis of historical cost, except where assets and liabilities are stated at their fair values in accordance with relevant accounting policies.

(i) Joint arrangements

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

The company’s 49% investment in the McPherson’s Housewares entities held in the prior comparative period was deemed a joint venture due to the contractual rights of the arrangement. This investment was accounted for using the equity method (see (ii) below) after initially being recognised at fair value in the consolidated balance sheet. The Group’s 49% interest in the joint venture was sold prior to 30 June 2016.

(ii) Equity method

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

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

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

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

1. Significant Accounting Policies (continued)

(b) Significant Accounting Estimates

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and associated assumptions are reviewed on an ongoing basis.

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 brand names

The Group tests goodwill and indefinite lived brand names 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 8 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. For details of actual payout amount refer to Note 31 of the Annual Report for the year ended 30 June 2016.

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

The final amount received from the Group upon sale of the remaining shares in the Housewares Group had been estimated as at 31 December 2015. For details of the actual amounts received by the Group refer to Note 5b(ii) and 5b(iii) of the Annual Report for the year ended 30 June 2016.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

2. Significant Items

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

		Note	Half Year December 2016 $000's	Half Year December 2015 $000's
(a)	Contingent consideration adjustment		-	1,558
	Less: Applicable income tax expense		-	-
			-	1,558
(b)	Impairment of Goodwill	8	(8,800)	-
	Less: Applicable income tax expense		-	-
			(8,800)	-
(c)	Impairment of Brand names	8	(11,000)	-
	Less: Applicable income tax benefit		1,059	-
			(9,941)	-
(d)	Costs associated with bonds buy back		(670)	-
	Less: Applicable income tax benefit		81	-
			(589)	-
(e)	Restructure costs - recruitment costs of incoming Managing Director and separation costs of retiring Managing Director		(780)	-
	Less: Applicable income tax benefit		234	-
			(546)	-
(f)	Gain recognised on MCP Singapore's divestment of its IMD division		194	-
	Less: Applicable income tax expense		-	-
			194	-
(g)	Restructure costs – others		-	(208)
	Less: Applicable income tax benefit		-	61
			-	(147)
(h)	Acquisition and one off legal costs		-	(211)
	Less: Applicable income tax benefit		-	63
			-	(148)
	Total significant items		(21,056)	1,139
	Less: Applicable income tax benefits		1,374	124
			(19,682)	1,263

The significant items set out in the table on the next page.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

2. Significant Items (continued)

Impairment of goodwill
During the current period the Group recognised an $8,800,000 impairment of Goodwill, $7,000,000 of which relates to the Group's Australian cash generating unit of Home Appliances and $1,800,000 relating to the New Zealand cash generating unit. This was as a direct result of a downgrade in EBIT forecasts.

Impairment of brand names
During the current period the Group recognised an $11,000,000 impairment of Brand names of which $5,000,000 relates to the Group's Australian cash generating unit of Home Appliances and $6,000,000 relating to McPherson's Consumers Products Australia's cash generating unit. This is as a result of reduced performance of the Home Appliance business and range rationalisation respectively.

Costs associated with bonds buy back
During the current period the Group purchased $10,000,000 of unsecured fixed rate corporate bonds. The associated transaction cost of the bond buy back and the pro-rated transaction costs capitalised at inception amount to $670,000 were recognised in the profit and loss during the current period.

Restructure costs - recruitment costs of incoming Managing Director and separation costs of retiring Managing Director
During the current period the Group had undergone a leadership transition. The recruitment cost of the new Managing Director (MD) and separation cost of the previous MD amounted to $780,000.

Gain recognised on MCP Singapore's divestments of its IMD division
During the current period MCP Singapore recognised a $194,000 capital gain associated with the divestments of its IMD division.

Contingent consideration adjustment
During the prior period the Group recognised a $1,558,000 gain associated with the reassessment of the receivable for contingent consideration relating to the divestment of its Housewares business. The reassessment was based on the available facts, circumstances and forecasts that existed at 31 December 2015.

Restructure costs - others
The restructure costs recognised in the prior period primarily relate to redundancy, inventory clearance and other restructuring activities undertaken by the Group, in the prior period.

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

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

3. Fair Value Measurement of Financial Instruments

The Group holds the following financial instruments which are measured and recognised at fair value at 31 December 2016 and 30 June 2016 on a recurring basis:

	31 December 2016				30 June 2016			
Recurring fair value measurements	**Level 1 $000's**	**Level 2 $000's**	**Level 3 $000's**	**Total $000's**	**Level 1 $000's**	**Level 2 $000's**	**Level 3 $000's**	**Total $000's**
Financial assets at fair value								
Derivative financial instruments	-	1,145	-	1,145	**-**	**-**	**-**	**-**
Total financial assets at fair value	**-**	**1,145**	**-**	**1,145**	**-**	**-**	**-**	**-**
Financial liabilities at fair value								
Derivative financial instruments	-	2,345	-	2,345	-	5,112	-	5,112
Total financial liabilities at fair value	**-**	**2,345**	**-**	**2,345**	-	5,112	-	5,112

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

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

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

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

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

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

4. 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 $17,196,600 (2015: $21,081,000) and $18,549,000 (2015: $27,606,000) 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's	New Zealand $000's	Rest of the World $000's	Inter-segment eliminations $000's	Consolidated $000's
2016					
Sales to external customers	**138,617**	**5,725**	**4,760**	**-**	**149,102**
Inter-segment sales	1,030	-	1,823	(2,853)	-
Total sales revenue	**139,647**	**5,725**	**6,583**	**(2,853)**	**149,102**
Other revenue / income (excluding interest)	27	-	365	-	392
Total segment revenue and other income (excluding interest)	**139,674**	**5,725**	**6,948**	**(2,853)**	**149,494**
EBITDA before significant items	13,689	132	1,244	-	15,065
Depreciation and amortisation expense	(1,417)	(82)	(39)	-	(1,538)
Segment result before significant items	**12,272**	**50**	**1,205**	**-**	**13,527**
Significant items before tax (excluding borrowing related costs, refer Note 2)	(18,780)	(1,800)	194	-	(20,386)
Segment result including significant items before tax	**(6,508)**	**(1,750)**	**1,399**	**-**	**(6,859)**
Net borrowing costs					(3,163)
Profit before income tax					**(10,022)**
Income tax expense					(1,781)
Profit after income tax					**(11,803)**
Segment assets	**199,603**	**7,733**	**25,716**	**(17,201)**	**215,851**
Non-current assets (other than financial assets and deferred tax)	**95,842**	**3,258**	**1,560**	**-**	**100,660**
Additions to non-current assets (other than financial assets and deferred tax)	**948**	**64**	**33**	**-**	**1,045**

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

4. Segment Information (continued)

	Australia $000's	New Zealand $000's	Rest of the World $000's	Inter-segment eliminations $000's	Consolidated $000's
2015					
Sales to external customers	156,082	7,222	4,972	-	168,276
Inter-segment sales	987	194	48,978	(50,159)	-
Total sales revenue	**157,069**	**7,416**	**53,950**	**(50,159)**	**168,276**
Other revenue / income (excluding interest)	1,706	(573)	653	-	1,786
Total segment revenue and other income	**158,775**	**6,843**	**54,603**	**(50,159)**	**170,062**
EBITDA before significant items	15,637	402	1,260	-	17,299
Depreciation and amortisation expense	(1,215)	(99)	(12)	-	(1,326)
Segment result before significant items	**14,422**	**303**	**1,248**	**-**	**15,973**
Significant items (refer Note 2)	1,287	(638)	490	-	1,139
Segment result including significant items	**15,709**	**(335)**	**1,738**	**-**	**17,112**
Net borrowing costs					(3,583)
Profit before income tax					**13,529**
Income tax expense					(3,437)
Profit after income tax					**10,092**
Segment assets	274,499	15,039	35,714	(28,012)	297,240
Non-current assets (other than financial assets and deferred tax)	125,260	6,554	1,808	-	133,622
Additions to non-current assets (other than financial assets and deferred tax)	3,991	75	6	-	4,072

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

5. Dividends

Details of dividends declared or paid during or subsequent to the half year ended 31 December 2016 are as follows:

	Half Year December 2016 $000's	Half Year December 2015 $000's
Ordinary		
Final 30 June 2016 dividend of 2.0 cents per fully paid share (2015: 2.0 cents per fully paid share) fully franked @ 30%	**2,069**	1,947
Dividends not recognised at the end of the half year		
In addition to the above dividends, since the end of the half year the Directors have declared a fully franked interim dividend of 6.0 cents per fully paid share (2015: 6.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 23 March 2017 but not recognised as a liability at half year end is:	**6,208**	5,860

Dividend reinvestment plan

The Company's dividend reinvestment plan will apply to the upcoming interim dividend. Shareholders on the register at the record date of 6 March 2017 will be eligible for the dividend. Shareholders wishing to participate in the dividend reinvestment plan need to have elected to do so by no later than the trading day immediately following the record date, or by 7 March 2017. Shareholders that have previously elected to participate in the dividend reinvestment plan (VWAP) will continue to do so on the same basis unless a formal election to vary or cease participation is provided by 7 March 2017.

The shares issued under the dividend reinvestment plan are fully paid ordinary shares and rank equally with other fully paid ordinary shares. The issue price under the dividend reinvestment plan is calculated as the volume weighted average price of all shares sold through normal trade on the ASX during the five trading days commencing on the third trading day after the record date. No discount will be applied to the determined VWAP price.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

6. Income Tax Expense

	Half Year December 2016 $000's	Half Year December 2015 $000's
(Loss) / profit before tax	**(10,022)**	13,529
Prima facie income tax at 30%	**(3,007)**	4,059
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of Goodwill	**2,640**	-
Impairment of Brand names	**2,241**	-
Non-assessable contingent consideration adjustment	**-**	(467)
Tax rate differences in overseas entities	**(236)**	(168)
Capital loss on bonds buy back	**120**	-
Share-based payments expense	**40**	26
Non-assessable gain on the disposal of MCP Singapore's IMD division	**58**	-
(Over) / under provision in prior years	**(31)**	285
Non-assessable share of net profit of associates accounted for using the equity method	**-**	(435)
Other	**(44)**	137
Income tax expense	**1,781**	3,437

7. Disposal of Joint Venture

Prior period - Housewares NZ disposal

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

The fair value of the net assets sold was determined to be equivalent to their carrying value. As such the Group's 49% retained share was valued at $2,458,000. This amount was recognised as the carrying value of the Group's investment in the joint venture immediately after the disposal. The consideration for the sale was received in two tranches, with A$1,914,000 received during June 2015 and A$125,000 comparative cashflow received in September 2015. The remaining 49% of the joint venture was sold prior to 30 June 2016.

8. Intangible Assets

	31 December 2016 $000's	30 June 2016 $000's
Goodwill	**28,977**	37,785
Brand names	**63,226**	74,226
Other intangibles	**8,600**	8,292
Accumulated amortisation	**(5,565)**	(5,164)
	3,035	3,128
Total intangibles	**95,238**	115,139

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

	Note	**Goodwill $000's**	**Brand names $000's**	**Other intangibles $000's**	**Total $000's**
Carrying amount at 1 July 2016		37,785	74,226	3,128	115,139
Additions		-	-	308	308
Impairment		(8,800)	(11,000)	-	(19,800)
Amortisation charge		-	-	(401)	(401)
Foreign currency exchange differences		(8)	-	-	(8)
Carrying amount at 31 December 2016		**28,977**	**63,226**	**3,035**	**95,238**

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

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

8. Intangible Assets (continued)

Impairment testing

Goodwill
Goodwill is allocated according to the following cash generating units:

	31 December 2016 $000's	30 June 2016 $000's
Australia (excluding Home Appliances)	15,677	15,677
Home Appliances	12,393	19,393
New Zealand	907	2,715
	28,977	37,785

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

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

	31 December 2016				30 June 2016		
	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post–Tax Discount Rate	Pre-Tax Discount Rate	Estimated Growth Rates Year 2 Onwards	Post–Tax Discount Rate	Pre-Tax Discount Rate
Australia (ex Home Appliances)	2.0%	2.0%	10.0%	13.7%	2.0%	10.0%	13.7%
Home Appliances	3.0%	2.5%	10.3%	13.9%	3.0%	10.3%	13.8%
New Zealand	2.0%	2.0%	10.8%	14.6%	2.0%	10.8%	13.7%

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.

Impairment charge
During the current half year a goodwill impairment charge of $7,000,000 was recognised against the Home Appliances cash generating unit and $1,800,000 was recognised against the New Zealand cash generating unit. The impairment charge was a direct result of the reduction in the forecasted EBIT.

8. Intangible Assets (continued)

Impact of possible changes in key assumptions

If the year one earnings before interest and tax (EBIT) used in the value-in-use calculation for the Home Appliances cash generating unit were to be 10.0% below the current estimated EBIT an additional impairment loss of $3,509,000 would arise.

If the post-tax discount rate used in the value-in-use calculation for the Home Appliances cash generating unit was to be 1.0 percentage point higher than management's estimate (11.25% instead of 10.25%) an additional impairment loss of $3,263,000 would arise.

If the terminal year growth rate used in the value-in-use calculation for the Home Appliances cash generating unit was to be 1.0 percentage point lower than management's estimate (1.5% instead of 2.5%) an additional impairment loss of $2,523,000 would arise.

If the year one earnings before interest and tax (EBIT) used in the value-in-use calculation for the New Zealand cash generating unit were to be 10.0% below the current estimated EBIT an additional impairment loss of NZ$468,000 would arise.

If the post-tax discount rate used in the value-in-use calculation for the New Zealand cash generating unit was to be 1.0 percentage point higher than management's estimate (11.75% instead of 10.75%) an additional impairment loss of NZ$341,000 would arise.

If the terminal year growth rate used in the value-in-use calculation for the New Zealand cash generating unit was to be 1.0 percentage point lower than management's estimate (1.0% instead of 2.0%) an additional impairment loss of NZ$255,000 would arise.

8. Intangible Assets (continued)

Brand names

Brand names 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 are set out below.

	31 December 2016	30 June 2016
Estimated growth rates	1.0% - 5.0%	1.0% - 5.0%
Post-tax discount rate	10.0% - 10.3%	10.0% - 10.3%
Pre-tax discount rate equivalent	13.1% - 14.1%	12.9% - 13.9%

Impairment charge

During the current half year period an impairment charge of $6,000,000 was recognised against the Revitanail brandname in the Australian consumer products business. This charge was necessitated by the recent range rationalisation associated with the brand. This charge is included within the Australian reportable segment within Note 4 Segment Information.

In addition, during the current half year period, an impairment charge of $5,000,000 was also required to be recognised against the Home Appliance brand names as a result of the reduced performance of that business. This charge is also included within the Australian reportable segment within Note 4 Segment Information.

Impact of possible changes in key assumptions
If the year one projected sales were 10.0% below the current estimates used in the value-in-use calculations an additional impairment charge of approximately $5,550,000 would arise on the Home Appliances brand and an additional impairment charge of approximately $523,000 would arise on the Revitanail brand.

If the year one contribution margin percentages were 2.0 percentage points below the current estimates used in the value-in-use calculations an additional impairment charge of approximately $5,550,000 would arise on the Home Appliances brand and an additional impairment charge of approximately $266,000 would arise on the Revitanail brand.

If the terminal year growth rates used in the value-in-use calculations were to be 1.0 percentage point lower than management's estimates an additional impairment charge of approximately $896,000 would arise on the Home Appliances brand and an additional impairment charge of approximately $269,000 would arise on the Revitanail brand.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

9. Borrowings

	31 December 2016 $000's	30 June 2016 $000's
Current		
Bank loans – secured	15,000	17,000
Other borrowings	93	503
Total current	**15,093**	17,503
Non-current		
Bonds – unsecured	40,000	50,000
Issue costs	(623)	(1,114)
Total non-current	**39,377**	48,886
Total borrowings	**54,470**	66,389

The Group's facilities are denominated in Australian dollars and comprise:

- $25,000,000 unsecured variable rate corporate bonds. The bonds mature in March 2019 and pay a coupon rate of 4.30% over the 90 day Bank Bill Swap Rate;
- $15,000,000 unsecured fixed rate corporate bonds. The bonds mature in March 2021 and pay a fixed rate of 7.10%;
- $15,000,000 working capital loan. The Group's facility is denominated in Australian dollars and the facility limits is $48,250,000. The facility provides an additional $9,000,000 seasonal uplift during the period 1 August to 28 February. Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

The corporate bonds were issued to professional and sophisticated investors only under Part 6D.2 of the *Corporations Act 2001*.

Under the terms of the borrowing facilities the Group is required to comply with the following key financial covenants as at 31 December 2016:

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

Post 31 December 2016, the Group renegotiated its working capital facility; the following key changes have been made and are effective from 7 February 2017:

- The total leverage ratio must not exceed 3.50 times; and
- Total Shareholder's funds must not be less than $65,000,000.

The Group's facility is denominated in Australian dollars and the facility limit is $51,000,000 with no seasonal uplift. The facility no longer has a combined seasonal uplift. Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

9. Borrowings (continued)

Maturity profile of the Group's borrowings

The table below analyses the Group's borrowings 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[1] $'000	Between 1 & 2 Years $'000	Between 2 & 3 Years $'000	Between 4 & 6 Years $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
31 December 2016						
Payables	42,202	-	-	-	42,202	42,202
Borrowings	18,176	2,594	27,512	15,266	63,548	54,470
Total non-derivative financial liabilities	**60,378**	**2,594**	**27,512**	**15,266**	**105,750**	**96,672**
30 June 2016						
Payables	48,810	-	-	-	48,810	48,810
Borrowings	21,096	3,340	31,289	28,106	83,831	66,389
Total non-derivative financial liabilities	**69,906**	**3,340**	**31,289**	**28,106**	**132,641**	**115,199**

[1] Refer to Note 15, Subsequent events, for details regarding the debt facility entered into by the Group post 31 December 2016 which has the impact of extending, in part, the Group's borrowings.

10. Contributed Equity

	31 December 2016 $000's	30 June 2016 $000's
Issued and paid up capital:		
103,459,341 (June 2016: 103,318,229) ordinary shares - fully paid	**154,191**	154,042

Movements in ordinary share capital

Date	Details	Number of Shares	Price $	$000's
1 July 2016	Opening balance	103,318,229		154,042
8 November 2016	Shares issued - Dividend reinvestment plan	141,112	1.06	149
	Transactions costs associated with shares issue			1
	Tax effect of share issue transaction costs recognised directly in equity			(1)
31 December 2016	**Closing Balance**	**103,459,341**		**154,191**

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

11. (Loss) / Earnings Per Share

	Half Year December 2016 Cents	Half Year December 2015 Cents
Basic (loss) / earnings per share	(11.4)	10.4
Diluted (loss) / earnings per share	(11.4)	10.4
Basic earnings per share excluding significant items	7.6	9.1

Reconciliation of earnings used in calculating earnings per share

	Half Year December 2016 $000's	Half Year December 2015 $000's
Basic and diluted earnings per share		
Profit for the period (excluding significant items)	7,879	8,829
Significant items, net of tax	(19,682)	1,263
(Loss) / profit for the period	**(11,803)**	10,092

Weighted average number of shares used as the denominator

	Half Year December 2016 Number	Half Year December 2015 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	103,359,098	97,430,375
Potential ordinary shares	-	-
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	103,359,098	97,430,375
Options and performance rights that are not dilutive and are therefore not included in the calculation of diluted earnings per share	2,772,000	1,459,000

12. Net Tangible (Liability) / Asset Backing

	31 December 2016 Cents	31 December 2015 Cents
Net tangible (liability) / asset backing per ordinary share	(1.7)	(7.5)

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2016

13. Acquisitions

Prior period - *Acquisition*

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

14. 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.

15. Subsequent Events

On 18 January 2017, the Group extinguished $15,000,000 fixed interest rate swaps.

On 7 February 2017, the Group re-financed its working capital facility. The life of the facility is 2 years terminating on 28 February 2019. The following key changes have been made and are effective from 7 February 2017:

- The total leverage ratio must not exceed 3.50 times; and
- Total Shareholder's funds must not be less than $65,000,000.

The Group's facility is denominated in Australian dollars and the facility limit is $51,000,000. The facility no longer has a combined seasonal uplift. Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

On 20 February 2017, the Directors of the Company declared an interim dividend of 6.0 cents per share fully franked which is payable on 23 March 2017 (refer to Note 5).

Other than the matters discussed above, there has not arisen in the interval between the end of the half 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.

McPherson's Limited and Controlled Entities
Directors Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 5 to 27 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 31 December 2016 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that McPherson's Limited will be able to pay its debts as and when they become due and payable.

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

Dated at Sydney this 21st Day of February 2017.

G. A. Cubbin
Director

L. McAllister
Director

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of McPherson's Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for McPherson's Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of McPherson's Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of McPherson's Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

S.T.Maher

Shannon Maher
Partner

Sydney
21 February 2017