



MCPHERSON'S

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A Health, Wellness & Beauty Growth Journey

# Health, Wellness & Beauty



Anna Bamford,  
Ambassador for Dr. LeWinn's

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**Financial calendar\***

**21 November 2018**

Annual General Meeting

**February 2019**

Release of half year results to 31 December 2018

**August 2019**

Release of full year results to 30 June 2019

**September 2019**

Publication of Annual Report and accounts for year to 30 June 2019

\* Subject to change

**Dividend policy**

To distribute at least 60 per cent of the Company's underlying profit after tax to shareholders (subject to other funding requirements).

**Annual General Meeting**

The Annual General Meeting of McPherson's Limited will be held at the offices of Thomson Geer, Level 25, 1 O'Connell Street, Sydney, on Wednesday, 21 November 2018 at 11.00 a.m. (AEDT).

**Our business**

McPherson's Limited is a leading supplier of Health, Wellness and Beauty in Australasia, with operations in Australia, New Zealand and Asia. The Health, Wellness & Beauty division markets and distributes beauty care, hair care, skin care and fragrance product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil, personal care items such as facial wipes, cotton pads and foot comfort products.

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

McPherson's manages some significant brands for agency partners such as Trilogy skincare; however, the majority of revenue is derived from the Company's diversified portfolio of owned market-leading brands, including Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Swisspers, Multix, Moosehead and Maseur.

DR. LEWINN'S®

[A'kin]®

manicare®

ESTD 1928  
LADY JAYNE®

swisspers

Multix



### FY2018 Financial Highlights

↑17%

Increase in underlying profit before tax from continuing operations year on year, from \$16.2m to \$19.0m

12.4CPS

Underlying earnings per share from continuing operations in 2018

\$210.4M

In sales revenue from continuing operations

↑6%

Increase in sales from core six brands

↓73%

Reduction in net debt

### FY2018 Key Achievements



Divestment of Home Appliances for 7x EBIT



41% increase in sales from skin care brands, driven by Domestic Pharmacy & Export channel



73% reduction in net debt over the last 12 months from \$36.4m to \$9.8m



New & revamped functions driving further growth agendas – R&D, New Business Ventures & International



Underlying cash flow conversion of 82%



Reinvestment in core brand innovation to drive growth in market share and profit

## Chairman's Report



I am pleased to present the 2018 annual report to the shareholders of McPherson's following a successful year with Laurie McAllister at the helm of your business.

Dear Shareholders,

I am pleased to present the McPherson's Annual Report for the year ending 30 June 2018.

The 2018 financial year has been transformational for the company. In line with our stated strategy to focus the business on Health, Wellness and Beauty markets, we successfully completed the divestment of the Home Appliances Division and refocused attention on our core owned brands – Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Multix and Swisspers - each of which have attained leading positions in the fast growing Health, Wellness and Beauty market.

This strategy delivered a strong financial result in FY2018 with underlying profit before tax from continuing operations of \$19.0 million, an increase of 17 per cent on the previous year and a statutory profit before tax of \$10.9 million, a significant improvement over the 2017 financial year loss of \$4.7 million.

These positive outcomes have been achieved by a dedicated management team, through the execution of the Group's strategy to invest in and deliver growth in its six core owned brands, by establishing strategic customer and supplier partnerships and from driving growth across multiple geographies.

We have also successfully de-risked the business. Divesting the Home Appliance Division on 28 February 2018 created approximately \$29 million in net consideration which was applied to reduce debt, including buying back the remaining \$25 million in Corporate Bonds and further reducing the company's borrowing costs.

In addition, the Group's improved working capital efficiency resulted in strong operating cash flow. Combined with the net consideration from the divestment of the Home Appliance Business, we saw a reduction of net debt levels by 73% per cent from a year earlier. This will result in lower borrowing costs going forward and provides a solid basis for future investment in product innovation and new markets.

#### BUSINESS OVERVIEW

The Group has revised its agency brand partnerships model to better align the business with its core focus and to ensure we maximise the benefits from growing brands. This has meant that we apply more rigorous criteria for taking on potential new agency brands to ensure they complement our existing owned brands, enhance the overall portfolio and are consistent with our core competencies.

Our customer base remains strongly affiliated with the core brands. Each of our core brands has benefitted from the Groups' packaging update initiative and now have new contemporary and premium packaging inkeeping with our market leadership position across those brands. The profitability of the Group's core six owned brands was strong, more than offsetting the impact of the end of the Fine Fragrance distribution arrangement which ceased earlier in the year.

During the year, the Group's geographic presence has strengthened with an increase in demand from domestic and export channels, particularly into China and the United Kingdom. We have also seen the return to profitability of our New Zealand operations.

#### DIVIDEND

The Board's dividend policy to distribute at least 60 per cent of the Company's underlying profit after tax to shareholders (subject to other funding requirements) remains unchanged.

The Board has declared a final dividend of 2.5 cents per share fully franked, payable on 19 October 2018 to shareholders on the register at 2 October 2018, taking total dividends for the year to 8.5 cents per share, representing a payout ratio of 69 per cent.



### BOARD APPOINTMENTS

As foreshadowed at last year's AGM, we have implemented a refresh of the Board over the past six months with the aim of appointing directors who have relevant experience in Health, Wellness and Beauty markets. Following the appointment of Grant Peck as a Director in December 2017, I am very pleased to also welcome Geoff Pearce and Alison Mew to the Board. Grant has more than 27 years of branded consumer goods experience both domestically and internationally. Geoff has an impressive background with a long history of building of businesses and working across markets relevant to the Group's strategy. Alison has more than 30 years of leadership and executive management experience in Australasia across a diverse range of functions within the biopharmaceutical and health services sectors. I have no doubt that they will each add significant value to the Company as it moves to grow in these markets.

Amanda Lacaze and Margaret Payn resigned as Independent Non-Executive Directors in February 2018. On behalf of the Board, I would like to thank Amanda and Margaret for their valuable contribution to the Board and to our business over a period where McPherson's transformed from a diversified consumer goods business, into a market-leader in Health, Wellness and Beauty products. We wish them both the very best for the future.

I encourage you to read more about the impressive experience and skills that Grant Peck, Geoff Pearce and Alison Mew bring to the McPherson's Board in the Directors' Report section of this Annual Report.

### MARKET INSIGHTS

In the 2019 financial year, McPherson's expects continued growth within the \$13 billion Health, Wellness and Beauty market segment in which we operate. The Group is well placed in these categories by offering innovative and sustainable products on a global platform as consumer spending in these categories continues to increase.

Our view remains that there are considerable growth opportunities for the business, including potential accretive M&A opportunities across its key sectors. Consequently, given the company's improved financial performance and strong balance sheet, we are devoting significant effort and resources to identifying and evaluating potential acquisition opportunities as and when they arise. This will complement organic growth and will allow the company to benefit from its operating leverage and scale efficiencies.

### OUTLOOK

Current structural demand dynamics in the Health, Wellness and Beauty market and the demand for our products support optimism for the year ahead.

The Board remains extremely supportive of our Managing Director, Laurie McAllister, and his entire team, who have delivered impressive strategic and operational improvements.

We have a strong management team and dedicated workforce in place to realise the potential for our Company.

McPherson's is committed to delivering value for our customers and our shareholders, to contributing positively to the communities in which we operate and to providing a safe and rewarding workplace for our people.

On behalf of the Board, thank you to all our shareholders for their continued support and interest in the company. We look forward to updating you on our progress over the course of the coming year.

**Graham Cubbin**  
Chairman

## Managing Director's Report

Dear Shareholders,

We were pleased to report a strong result for the 2018 financial year across many measures. The management team together have now successfully de-risked the business and we are wholly focussed on our strategy to grow the business in Health, Wellness and Beauty markets.



To recap on our results from continuing operations, the Group delivered a:

- 17 per cent increase in underlying profit before tax
- 13 per cent increase in underlying earnings per share
- 7 per cent increase in second half sales revenue driven by 12 per cent growth in sales from our owned brands
- 73 per cent reduction in net debt to \$9.8m

The strong results are the outcome of our dedicated focus on delivering on our objectives for the year. At the start of the financial year, we set out to:

- Divest the Home Appliance business
- Accelerate performance in our core six owned brands
- Redesign major customer trading terms via joint business plans
- Execute supply chain optimisation initiatives
- Embrace the export business model
- Return New Zealand operations to earnings growth

We have achieved all of these objectives. Aside from the strong financial results, an important outcome of these achievements has been the significant reduction in risk within our business. Gearing has been reduced by 73 per cent, we have reduced our reliance on revenue from agency brands and we now have better trading terms with our customers and suppliers.

### DIVESTMENT OF THE HOME APPLIANCE BUSINESS

Last year, when we laid out our strategy, we promised shareholders we would divest the non-core Home Appliance business as it did not fit within our view of the future McPherson's. After announcing the sale in December 2017, the divestment of Home Appliances was completed on 28 February 2018, achieving a net consideration of approximately

\$29.5 million. We have used the bulk of these funds to reduce debt by buying back \$25 million in outstanding corporate bonds. Net debt has been reduced from \$36.4 million to \$9.8 million, and we are now in a strong financial position.

The divestment has also seen a change in our currency exposure, where the proportion of annual US dollar denominated purchases has reduced from 53 per cent to 48 per cent over the year. Sourcing additional Australian based products has also assisted the reduction.

### ACCELERATING THE PERFORMANCE OF OUR CORE SIX BRANDS

We refer to Manicare, Dr. LeWinn's, A'kin, Swisspers, Lady Jayne and Multix as our "core six brands". The majority of these brands are market leaders in their categories, with A'kin being the newest in the market but achieving solid growth in its category.

Through the year, these brands combined grew revenue by 6 per cent which is a very pleasing outcome for the business. A number of activities supported this growth including the roll-out of new packaging across Dr. LeWinn's, A'kin, Swisspers and Lady Jayne, all of which have seen a positive improvement in customer engagement and importantly, sales revenue. We also invested in research and development to support innovations across the brands; invested in marketing initiatives and brand ambassadors, and increased our digital support capabilities. Our capability, capacity and track record of growing brands from infancy is best reflected in the success of A'kin and Dr. LeWinn's, the two highest growing brands in our portfolio, growing at 41 per cent combined in 2018. This year A'kin won best in category at the "Natural Beauty Awards" for its Conditioner. Reflective of our aim to be a leader in research and development across the categories in which we operate, was the launch of the new Multix "Greener" range in February 2018. The Greener range is a new innovation aiming to meet our

consumer's desire for sustainable products. The range uses recycled materials for its bags, wraps and foils. Since launching the greener range, Multix has seen a turnaround in headline sales and accelerated its market leadership in the category.

We have now established a formal relationship with Monash University to accelerate the research and development agenda within the sustainability space, led by Dr. Mary Pearce, our R&D Director. This will be a key area of focus for our business going forward.

### IMPROVING CUSTOMER AND SUPPLIER RELATIONSHIPS

At the start of the financial year, we set out to improve the way we worked with customers and suppliers. Our customer and supplier partnerships have been redesigned with joint business plans in mind. We have now formalised a regular schedule of high level meetings with key customers and suppliers, supporting better engagement with them. This new approach has delivered McPherson's numerous benefits including; increased customer engagement, incremental space and ranging with customer stores, and increased participation in value propositions such as exclusive offers.

Since June 2017, we have seen incremental ranging and space in both the grocery and pharmacy channels, delivering 45,000 incremental distribution points and increased customer catalogue representation.

With the retail market landscape undergoing structural changes, we are also actively working with new market entrants, such as Amazon, to distribute our products. We now offer close to one thousand products across Amazon's website, supporting diversification of our customer base.



Exporting our brands is a long-term proposition and one that we are seeking to undertake in a measured way.

# Building our export capabilities

We have continued to refine our approach and build our capabilities in the way we take our products to export markets. Exporting our brands is a long-term proposition and one that we are seeking to undertake in a measured way, ensuring we have the right distribution model in place for each market we seek to enter.

During the year, the Group expanded its geographic footprint and distribution relationships into Malaysia, India, Korea and Taiwan for the A'kin, Dr. LeWinn's and Karen Murrell brands. This builds on our existing presence in the South East Asian markets, where we have an established presence, while also developing new relationships in the North Asia region.

The Company also saw an increase in partnerships in China, which, given the demographic and market size, is a key focus market for the business as we expand our A'kin and Dr. LeWinn's brands internationally.

Importantly, we have also seen product expansion into the United Kingdom and now sell A'kin and Moosehead in national grocery, national pharmacy and beauty retail chains outlets.

A success I am particularly proud of this year, has been the turnaround in profitability of our New Zealand operations, now returning this market back to growth.

McPherson is in a strong financial position to grow its business in the Health, Wellness and Beauty markets on a global scale.

Given our strong position, our financial plan for the 2019 financial year includes an increased level of capital invested to support continued growth in our core owned brands.

This will be directed to permanent in store merchandising fixtures, developed in partnership with our key account customers. We also see an opportunity to increase investment in specialty personnel, advertising, research and development to support the fundamental health of our six core brands as well as continuing to strengthen our export business.

We have said to shareholders that we are actively looking to build-out our business in Health, Wellness and Beauty segments of the market, and therefore a focus this coming financial year will be to actively pursue acquisition or partnership opportunities that complement our existing portfolio and capabilities. McPherson's has a very good track record, the right capabilities and financial strength to build successful brands and grow domestically and offshore.

I would like to thank the Board, led by Chairman Graham Cubbin, for its support of our long-term strategy. I would also like to thank the executive team and every one of our employees for their hard work and contribution to the success of the business this year.

Thank you also to our shareholders for your continued support. I look forward to sharing our progress and success with you in the coming year.

**Laurence McAllister**  
Managing Director

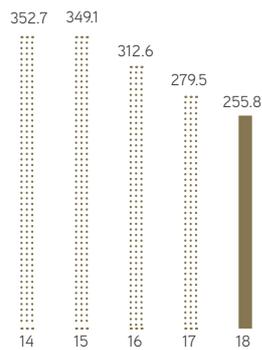


## Review of Operations

McPherson's Limited is a leading supplier of Health, Wellness and Beauty products in Australasia, with operations in Australia, New Zealand and Asia. The Group markets and distributes beauty care, hair care, skin care and fragrance product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil, personal care items such as facial wipes, cotton pads and foot comfort products.

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

## Sales \*



\*Sales are net of customer allowances.

**Divestment during the year**

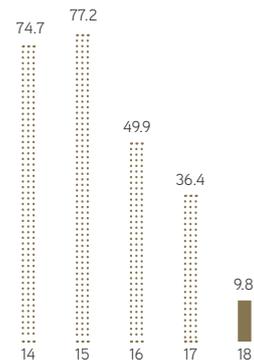
The Group announced the divestment of the Home Appliances business to Glen Dimplex Australia Pty Ltd. The divestment of the Home Appliances business was completed in February 2018 with approximately \$29.5 million in net consideration applied to reduce the Group's debt including buying back the remaining \$25 million in Corporate Bonds, further reducing the Group's borrowing costs.

**Results for the year**

McPherson's statutory sales from continuing operations (i.e. excluding the Home Appliances business) was \$210.4 million, in line with the previous year's \$211.2 million.

EBIT (earnings before interest and tax) from continuing operations, excluding significant non-recurring items, was \$21.6 million, 4.2% above FY17 (\$20.7 million). Excluding significant non-recurring items, profit before tax from continuing operations was \$19.0 million, 17% above FY17. Non-recurring items before tax from continuing operations in FY18 comprised \$0.5 million restructuring costs, \$0.9 million buyback of bonds costs and \$0.5 million hedge ineffectiveness expense due to extinguishment of interest rate swaps.

## Net Debt



Non-recurring items before tax from continuing operations in FY17 comprised a \$9.6 million impairment of intangible assets, \$0.2 million profit recognised from the divestment of Singapore's Impulse Merchandising operation, \$1.6 million restructuring costs and \$1.3 million buyback of bonds costs.

Underlying earnings per share from continuing operations, excluding the significant non-recurring items, increased 13.1% from 11.0 cents per share to 12.4 cents per share.

Inclusive of the aforementioned non-recurring items and discontinued operations, McPherson's reported a statutory profit after tax of \$5.2 million, compared with a statutory loss after tax of \$9.1 million in FY17.

The underlying cash conversion of 82% was impacted by relatively high sales in May and June 2018 and a build in inventory levels to support export sales growth. Net debt reduced by 73% from \$36.4m at 30 June 2017 to \$9.8m at 30 June 2018. The company's gearing ratio (net debt/total funds employed) decreased from 29.2% at 30 June 2017 to 9.9% at 30 June 2018.

Directors declared a total dividend of 8.5 cents per share fully franked for the full year, 6.3% above the FY17 total dividend of 8.0 cents per share fully franked. This represented a payout ratio for the year ended 30 June 2018 of 68% of underlying earnings per share, excluding significant non-recurring items.

The Group refers to its owned brands Manicare, Dr. LeWinn's, A'kin, Swisspers, Lady Jayne and Multix as its "core six brands". The majority of these brands are market leaders in their categories, with A'kin being the newest in the market but achieving solid growth in its category.

During the current financial year, revenue from the core six brands combined grew by 6 per cent.

**Australia**

McPherson's Australian operation recorded sales revenue on a continuing operations basis of \$194.1 million, which was stable against FY2017 (\$193.8 million).

The termination of the Coty agency agreement effective 31 January 2018, led to a 14% decline in revenue from agency brands to \$40.6 million. This was largely offset by the significant growth in the "core six brands". In particular, sales revenue of Dr. LeWinn's and A'kin were strong, growing by 36% combined year on year, driven by increased ranging in the Australian pharmacy market and growth in export sales.

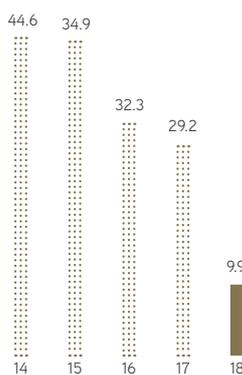
**Corporate strategy**

The success of the current financial year has been achieved through the execution of the Group's strategy to invest in and deliver growth in its six core owned brands, establishing strategic customer and supplier partnerships and driving growth across multiple geographies.

To support the Group's corporate strategy, the Senior Leadership Team has established the following key operational priorities for FY2019:

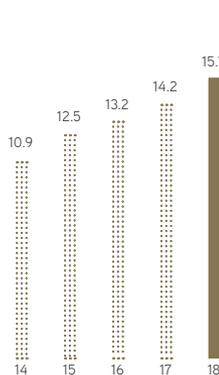
- Increase the level of capital invested to support continued growth in the Group's core owned brands. This will be directed to permanent in store merchandising fixtures, developed in partnership with our key account customers;

**Gearing\***



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

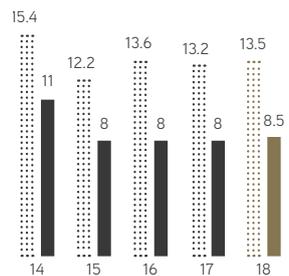
**Return on average shareholders' funds\***



\* Profit after tax excluding non-recurring items/average shareholders' funds

**Earnings\* & Dividends Per Share**

••••• Earnings per share  
 ■ Dividends per share



\*Underlying EPS excludes non-recurring items.

A number of activities supported this growth including the roll-out of new packaging across Dr. LeWinn's, A'kin, Swisspers and Lady Jayne, all of which have seen a positive improvement in customer engagement. The Group has also invested in research and development to support innovations across the brands; invested in marketing initiatives and brand ambassadors and increased its digital support capabilities.

The Group continues to operate a comprehensive foreign exchange hedging program, which mitigates the impact of Australian dollar and US dollar movements. The Group's foreign exchange hedging and the instruments used for foreign exchange hedging remain unchanged, being options and foreign exchange contracts on a rolling basis. Furthermore, the divestment of Home Appliances has also resulted in a change in the Group's currency exposure, where the proportion of annual US dollar denominated purchases has reduced from 53 per cent to 48 per cent.

**New Zealand**

McPherson's New Zealand operation experienced a 9.2% decrease in sales as a result of range rationalisation and some loss of ranging in key accounts. This however has been in part offset by new agencies, Evolu and Karen Murrell, and the operation has returned to profit in the current financial year.

**Asia**

From its Asia sales headquarters in Singapore, McPherson's markets an extensive range of Health, Wellness & Beauty products throughout the Asian region. Brands include the key Group-owned brands of Manicare, Lady Jayne and Swisspers complemented by licensed brands. Growth in the Group-owned brands has offset the drop in agency brands and private label offerings. This has resulted in sales in Singapore remaining stable. The Group also has a sourcing operation located in Hong Kong that manages many aspects of product procurement, such as quality assurance.

- Increase investment in specialty personnel, advertising, research and development to support the fundamental health of the Group's six core brands;
- Continue to strengthen the Group's export business with a focus on China and Europe as well as increasing its new geographic footprints in Japan, Malaysia, India, Korea and Taiwan; and
- Actively pursue acquisition or joint venture opportunities that complement the Group's existing portfolio and capabilities.

The Senior Leadership Team of the Group is actively involved in the review, isolation and mitigation of key risks and each senior manager is responsible for the management of risk and compliance with relevant laws and regulations.

#### Risk management and compliance

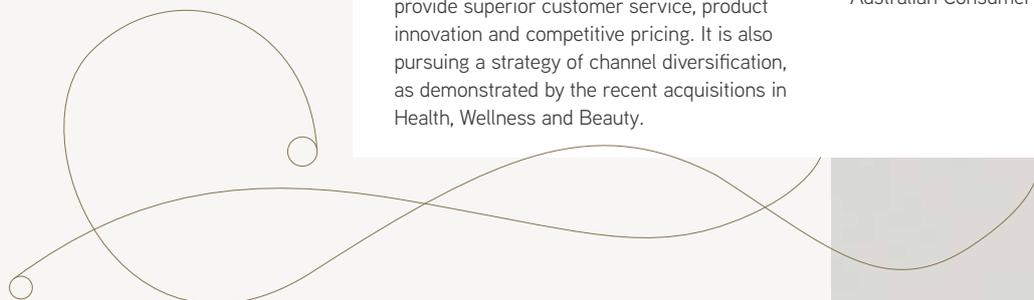
The Board has ultimate responsibility for the oversight of risk management and compliance across the Group.

Risk is an integral part of the Group's decision making process and all risks and opportunities are adequately and appropriately assessed to ensure that significant 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 of the Board. The Senior Leadership Team of the Group is actively involved in the review, isolation and mitigation of key risks and each senior manager is responsible for the management of risk and compliance with relevant laws and regulations.

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

- **Reduction in consumer demand** – Given McPherson's reliance on consumer spending, adverse changes to the general economic landscape in Australasia or consumer sentiment for the Group's products could impact its financial results. This risk is addressed through keeping abreast of economic and consumer data/research, innovative product development and brand building.
- **Workplace health and safety** – Given the physical nature of the Group's operations, workplace health and safety are of paramount importance. Significant effort and attention have been placed on internal policies and processes to ensure that employees are aware of their legal obligations and the productivity benefits that come from working safely. A tone of safety first is set at the top of the organisation and is reinforced through commitment of resources including a dedicated workplace health and safety officer.
- **Foreign currency fluctuation** – The Group sources the majority of its inventory in currencies other than Australian dollars, with the US dollar the predominant sourcing currency. Consequently, significant fluctuations in the AUD / USD currency costs 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 costs are 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 rate. This correlation provides a degree of natural hedge against the profit impact of movements in the AUD / USD cross rate; consequently separate risk mitigation measures are not utilised to manage this risk.
- **Loss of a major customer or deranging of a major product range** – A significant proportion of the Group's sales is to two customers in the grocery channel. The delisting of a material product range by one of these customers could materially reduce McPherson's profitability. In order to mitigate this risk, the Group strives to provide superior customer service, product innovation and competitive pricing. It is also pursuing a strategy of channel diversification, as demonstrated by the recent acquisitions in Health, Wellness and Beauty.
- **Deficiency in product quality** – As a supplier of branded consumer products to retailers, the Group has an exposure to product faults leading to liability claims and product recalls. To control this risk, the Group adopts stringent quality control and supplier verification procedures. In addition, it holds adequate product and public liability insurance and product recall insurance.
- **Compliance with debt facility undertakings** – A portion of the Group's capital requirement is in the form of debt facilities supplied by Financial Institutions that require the Group to comply with various undertakings, including specific financial ratios or covenants, in order for the Group to continue to access facilities. The Group seeks to adopt a debt structure that in both quantum and terms has sufficient capacity to withstand a short term decline in earnings or assets that may impact its ability to meet its various debt facility undertakings.
- **Cyber Security** – The Group places significant reliance on its Information Technology (IT) systems to transact with customers and connect with consumers. The inability to utilise or access our IT systems through a successful denial of service, ransomware or other form of attack could materially impact the Group's ability to transact and hence affect its earnings. The Group uses firewall monitoring software and anti-virus software to block potential cyber threats. Additionally it has a network monitoring and alert tool that is designed to detect and signal unusual network behaviour. Ongoing external review and input are implemented to ensure the effectiveness of 'cyber' controls to meet ever evolving threats of this nature.
- **Talent Management** – The loss of key Management Talent and potential underutilisation of key Management Talent represents a key risk to the business that is mitigated by Human Resources establishing talent development plans, well targeted incentive programs and succession plans.
- **Regulatory Compliance** – The general risk of compliance with changes in Australian Consumer Law and product standards, with related implications for supplier and inventory management, as well as penalties for non-conformance, is managed by the employment of appropriately knowledgeable employees accessing regular updates on changes in standards. Additionally regular staff training is conducted by external legal experts in Australian Consumer Law.



**Significant Changes in the State of Affairs**

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

The divestment of the Group's Home Appliances business was completed in February 2018.

The net consideration for this transaction was \$29.5m. An impairment charge of \$6.4m has been recognised in December 2017 against the Home Appliances business to reflect the ascribed final estimated purchase price upon its divestment. Furthermore, as a result of the finalisation of the sale, the Group recorded a loss on sale before tax and recognition of foreign exchange options hedge ineffectiveness of \$0.3m.

The McPherson's Group agreed to separate from the distribution agreement with the Coty Group in acting as an agent for the Coty Group supporting the management of brands including Gucci, Lacoste and Hugo Boss Fragrances effective 31 January 2018. This was a result of the acquisition by Coty of the rights to these fragrances from the Procter & Gamble Group.

**Events Subsequent to Balance Date**

Effective 24 July 2018 Ms. Alison Mew was appointed an Independent Non-Executive Director of the Group.

On 2 July 2018 the Group requested a reduction of its borrowing facility limit by \$1.6m.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2018 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

**Likely Developments and Expected Results of Operations**

In the opinion of the Directors, it would prejudice the interests of the Group to include additional information, except as noted above, and as reported elsewhere in the Directors' Report and the financial statements, which relates to likely developments in the operations of the Group and the expected results of these operations in financial periods subsequent to 30 June 2018.



## Board of Directors

**GRAHAM A. CUBBIN**

B.Econ. (Hons)

**Independent Non-Executive Director and Chairman of the Board**

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

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

**Special responsibilities**

Chairman of the Board

Member of the Nomination and Remuneration Committee

Member of the Audit, Risk Management and Compliance Committee.

**Other current Directorships in ASX listed companies**

Mr. Cubbin is a Director of Challenger Limited, WPP AUNZ Ltd, Bell Financial Group Limited and White Energy Company Limited.

**Former Directorships in ASX listed companies in last three years**

None

**Interests in shares and performance rights**

150,000 ordinary shares in McPherson's Limited.

No performance rights held.

**LAURENCE MCALLISTER****Managing Director**

Mr. McAllister was appointed Managing Director of McPherson's Limited on 21 November 2016.

Mr. McAllister is an experienced international senior executive with strong consumer marketing and dynamic commercial experience. Prior to this role Mr. McAllister worked over 23 years with the Coca-Cola Company, managing New Product Development, M&A, Innovation and the Research and Development function across Europe, Eurasia & Middle East. Mr. McAllister was also the President of Nordics and the Chief Commercial & Marketing Officer for Japan, for the Coca-Cola Company. Throughout this tenure Mr. McAllister represented the Coca-Cola Company on Boards in Germany, Sweden, Norway, Denmark and Finland. More recently at Sanofi, Mr. McAllister

was the Managing Director of the ANZ Affiliate, responsible for six business units with a turnover of \$1.0 billion and \$0.5 billion in profit before tax. In addition to this, Mr. McAllister was on the Board of Medicines Australia for 2 years representing the \$18 billion Pharmaceutical Industry and led a significant turnaround of Sanofi's Consumer Health Care business in Australia and New Zealand.

**Special responsibilities**

Managing Director

**Other current Directorships in ASX listed companies**

None

**Former Directorships in ASX listed companies in last three years**

None

**Interests in shares and performance rights**

Nil ordinary shares in McPherson's Limited

1,842,000 performance rights are held over ordinary shares of McPherson's Limited.

**GRANT W. PECK**

B. Bus, CA

**Independent Non-Executive Director**

Mr. Peck was appointed an Independent Non-Executive Director of McPherson's Limited on 14 December 2017. With effect from 20 February 2018, Mr. Peck was appointed a member and Chairman of the Board's Audit, Risk Management and Compliance Committee, and a member of the Board's Nomination and Remuneration Committee.

Mr. Peck has more than 27 years of branded consumer goods experience both domestically and internationally, including leading the finance and supply chain functions in both large and mid-sized FMCG (fast moving consumer goods) organisations. He has a strong record of delivering improved performance outcomes across varied functions, business sectors and geographies.

Currently the CEO of Sunny Ridge Farms, Mr. Peck most recently held the position of Chief Financial Officer of Carlton & United Breweries (CUB) (part of the SAB Miller Group) and was previously the Group Managing Director of Supply for CUB with the Fosters Group.

Mr. Peck has also held senior general management roles in the food industry with McCormick & Co, where he was responsible for the industrial products business in Australia, and also Chief Financial Officer for the Asia Pacific region with responsibility for operations in China, Singapore and joint ventures throughout Asia.

Mr. Peck holds a Bachelor of Business and is a Chartered Accountant.

**Special responsibilities**

Member and Chairman of the Audit, Risk Management and Compliance Committee

Member of the Nomination and Remuneration Committee.

**Other current Directorships in ASX listed companies**

None

**Former Directorships in ASX listed companies in last three years**

None

**Interests in shares and performance rights**

14,400 shares held in the name of Beaumont Road Pty Ltd <GW & JA Peck Super Fund a/c>.

No performance rights held.

**JANE M. McKELLAR**

MA - (Hons)

**Independent Non-Executive Director**

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

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

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

Ms. McKellar holds a Master of Arts (Hons) from the University of Aberdeen and is a GAICD.

**Special responsibilities**

Member and Chairman of the Nomination and Remuneration Committee

Member of the Audit, Risk Management and Compliance Committee

**Other current Directorships in ASX listed companies**

Ms. McKellar is a Director of Automotive Holdings Group, Terry White Chemmart and GWA Group.

**Former Directorships in ASX listed companies in last three years**

Director of Helloworld Pty Ltd.

**Interests in shares and performance rights**

1,560 shares held in the name of Jane M. McKellar.

No performance rights held.

## Company Secretaries

**GEOFFREY R. PEARCE****Independent Non-Executive Director**

Mr. Pearce was appointed an Independent Non-Executive Director of McPherson's Limited on 20 February 2018.

Mr. Pearce has more than 40 years business experience in the pharmaceutical, cosmetic and personal care industries. He has extensive experience in pharmaceutical and cosmetic manufacturing as well as raw material sourcing and product distribution, having established, operated and grown a number of personal care businesses in these industries.

**Special responsibilities**

None

**Other current Directorships in ASX listed companies**

Mr. Pearce is a Director of Probiotec Limited and Cann Group Limited.

**Former Directorships in ASX listed companies in last three years**

Former co-founder and director of BWX Limited.

**Interests in shares and performance rights**

690,939 ordinary shares in McPherson's Limited.

No performance rights held.

**ALISON J. MEW**

MSc (Hons)

**Independent Non-Executive Director**

Ms. Mew was appointed an Independent Non-Executive Director of McPherson's Limited on 24 July 2018.

Ms. Mew has more than 30 years of leadership and executive management experience in Australasia across a diverse range of functions within the biopharmaceutical and health services sectors. Her experience includes product manufacturing, quality systems, logistics, sales and marketing, as well as research and development. Ms. Mew is also familiar with the regulatory environment that governs the healthcare market. In addition to these technical and operational activities, Ms. Mew has been involved in corporate acquisitions and divestments as well as the strategic planning process.

Ms. Mew has recently held the positions of Chief Operating Officer and then Chief Executive Officer of Genetic Technologies Limited, an ASX and NASDAQ listed leading edge genetic testing services business.

Ms. Mew holds a Bachelor of Science and a Master of Science (Microbiology) and has undertaken the Executive Development Programme at Melbourne Business School.

**Special responsibilities**

None

**Other current Directorships in ASX listed companies**

None

**Former Directorships in ASX listed companies in last three years**

None

**Interests in shares and performance rights**

Nil ordinary shares in McPherson's Limited.

No performance rights held.

**PAUL WITHERIDGE**

B.Com, CA

**Chief Financial Officer and Joint Company Secretary**

In May 2010 Mr. Witheridge was appointed the Chief Financial Officer of McPherson's Consumer Products Pty Ltd. Mr. Witheridge was appointed Chief Financial Officer and Joint Company Secretary of McPherson's Limited on 1 December 2011.

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.

**PHILIP R. BENNETT**

B.Com, CA

**Joint Company Secretary**

Mr. Bennett was appointed Company Secretary of McPherson's Limited on 2 February 2012. Mr. Bennett had previously held the position of Chief Financial Officer of McPherson's Limited since 2000, and Company Secretary from 1995; however Mr. Bennett stepped down from both these positions in November 2011.

Mr. Bennett is a Chartered Accountant and has a Commerce degree from the University of Melbourne.

Before joining McPherson's, Mr. Bennett held senior financial and company secretarial positions with another listed company, and prior to that was a senior manager with a major Australian chartered accounting firm.

Category Overview

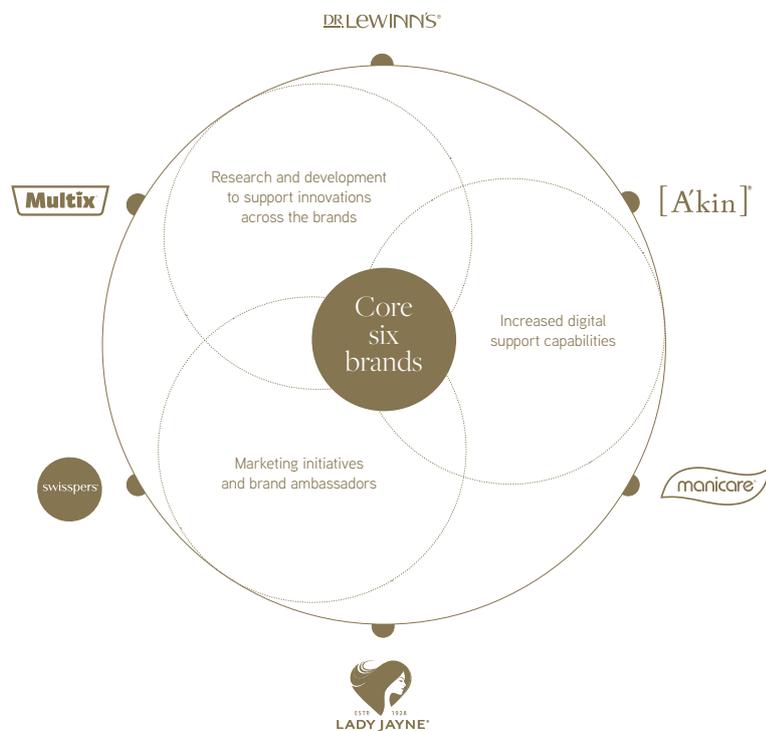
# Health, Wellness & Beauty

McPherson's has continued to invest in the Group's own successful market leading brands and has aligned itself with strong reputable agency brands that enhance and complement its existing portfolio. FY18's focus was on building the Group's "core six brands", Dr. LeWinn's, Akin, Manicare, Lady Jayne, Multix and Swisspers.

The focus on the "core six brands" was led by activities such as re-designed packaging as well as investment in:

- research and development to support innovation across the brands;
- marketing initiatives and brand ambassadors; and
- increased digital support capabilities.

FY19 will see an emphasis on innovation and will be driven by the Group's new formal relationship with Monash University to accelerate the Group's research and development agenda.





Glabassador,  
Pia Muehlenbeck

# Core six brands



DR. LEWINN'S®

## DR. LEWINN'S

2018 was a year of tremendous progress and impressive growth for Dr. LeWinn's. With the range being reinvigorated with competitive premium packaging, consumer engagement with Dr. Lewinn's has increased. Sales for the brand year on year has increased by 39%.

The relaunch and re-packaging of clinically proven Reversaderm has proven a success for Dr. Lewinn's. Likewise, core cleansers were re-engineered under the new contemporary Private Formula look, again, exceeding expectations in consumer uptake.

Whilst domestic sales were strong, international success lifted the results even further. Line Smoothing Complex, particularly the Treatment Mask and Ageless Trinity Skin Care, is fast becoming the Dr. Lewinn's hero range amongst the local Daigou and in China. International expansion will continue to be a key focus across Asia.

In the coming months, innovation supported by tailored retailer programs will attract new consumers and extend the regimes of our loyalists. The new luxurious Ultra R4 Collagen Face Mask and 360 degree Eye Masks will tap into the lucrative mask trend and the launch of the unique Private Formula Vitamin Infused Micellar water and wipes range will elevate our flagship sub-brand.

↑39%

Increased sales for the brand year on year

↑45%

Increased retail sales growth on prior year



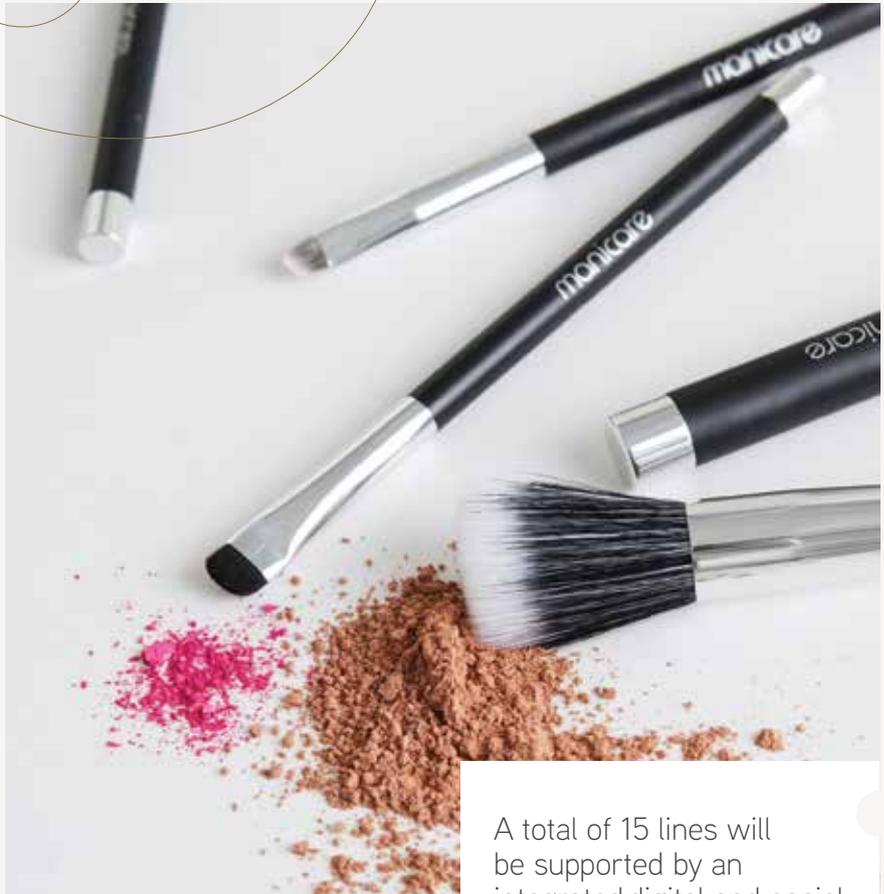
[A'kin]

**A'KIN**

During FY18, A'kin has experienced shelf, category and international expansion. The natural brand achieved 45% retail sales growth on prior year, despite competing in the most challenging and cluttered skin care & hair care segments. FY18 saw the launch of seven new skin care products, including a strategic new foray into natural deodorants which proved successful.

More recently, the new oil control skin care range has driven visibility of A'kin across Australia and is generating interest amongst our export partners.

A'kin hair care also performed very well and continues to be the hero A'kin range internationally. As the brand gains momentum, new markets have been quick to embrace our natural, Australian and ethical positioning with Japan and Malaysia the most recent markets to launch, driven by their increasing desire for quality, on-trend natural products, made in Australia.



manicare

A total of 15 lines will be supported by an integrated digital and social campaign featuring Pia

**MANICARE**

Enabling beauty routine confidence and good skin health is the motivation behind Manicare's range expansion into smart beauty tools in FY19. Category value growth is set to be unlocked delivering premium and affordable beauty technology for the massage facial cleansing segment within pharmacy.

Manicare's Sonic Mini (rechargeable facial cleansing brush) is clinically proven to remove impurities five times more effectively cleaner than hands alone, promoting cleaner brighter and healthier skin. As the major launch a 360 degrees media campaign targeted at the highly involved cosmetics user, driving new trial to the brand, will commence in September 2018. "Edutainment" underpins the campaign as Manicare assumes a mentor position in educating consumers on the benefits of sonic cleansing to enhance their daily beauty routine.

Investment in the creation of tutorial "How To's" and industry trial teams which has awarded the product a commended 4.5 out of 5 star Beauty Heaven rating,

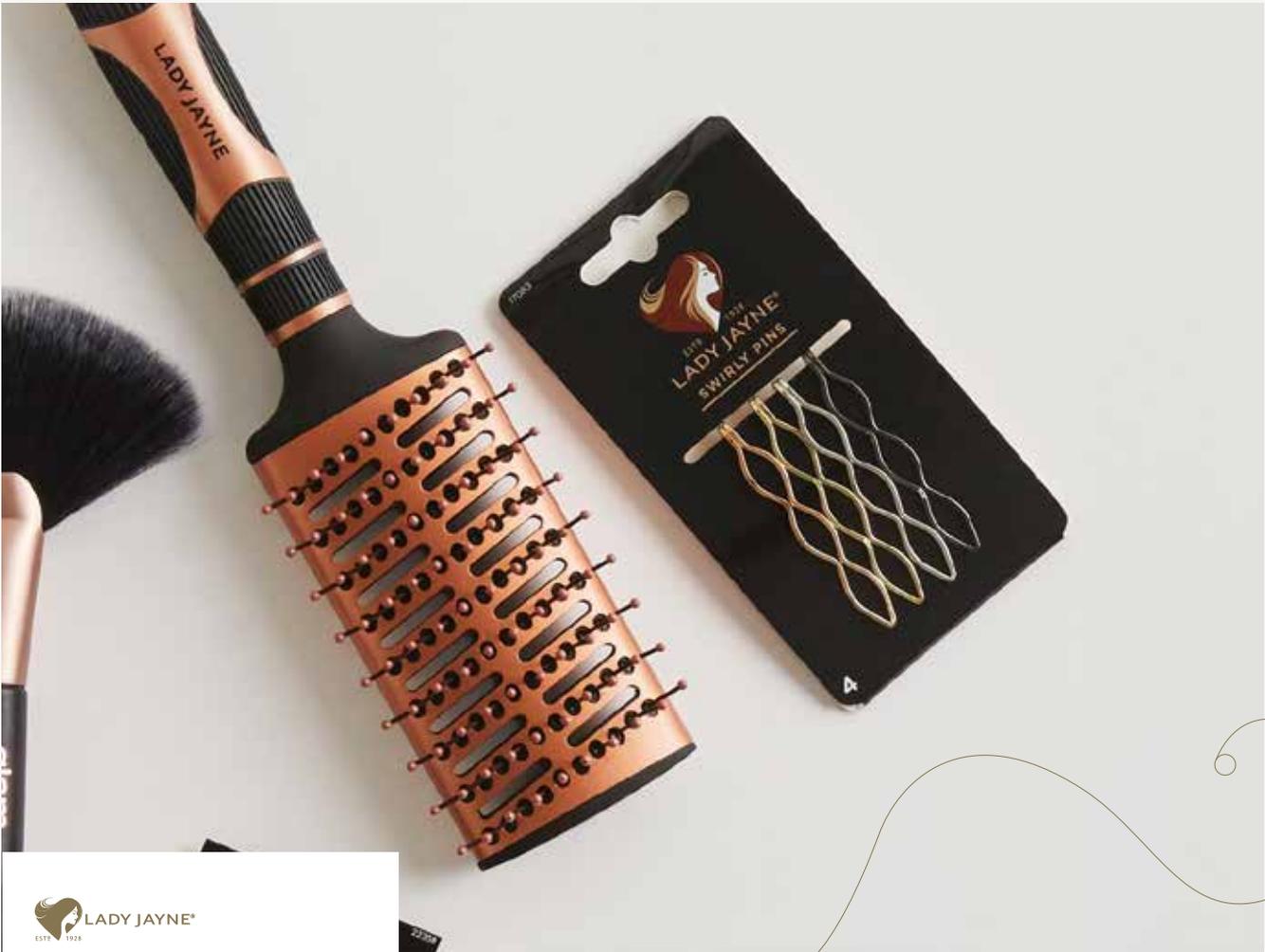
an award that is important in consumer consideration for the path to purchase.

In attracting new trial and brand reappraisal, Manicare collaborated with Australian fashion designer Aje in FY18 showcasing its floral and pattern runway prints across the Limited Edition Fashion tool range.

As a key player within youth beauty, Glam by Manicare continues to strengthen its consumer connection and range development within the dynamic and high growth lash segment. Partnering with high profile lifestyle and beauty influencer Pia Muelhenbeck for spring and summer 2018 – Glam will launch two new sub ranges. A total of 15 lines will be supported by an integrated digital and social campaign featuring Pia. The new Flexi, Luxe and Mink Effect ranges were launched in pharmacy in August 2018.

As a part of our point of sale investment program both Manicare and Glam will realise greater visibility and brand presence within the pharmacy channel, supporting both as brand beacons for the category.

Core six brands continued



Celebrating  
**90** years  
of style

**LADY JAYNE**

Australia's most trusted and recognised hair accessories brand celebrates 90 years of style. Established in 1928, Lady Jayne became indelibly linked to style in the 1950's with the breakthrough launch of the Hair Beautifier, the original detangling brush. The launch marked a turning point, building a contemporary and relevant platform for the brand.

Harnessing our strong heritage the Lady Jayne portfolio has undertaken an extensive range transformation that has flowed through the pharmacy channel in FY18 via a packaging refresh strongly communicating Lady Jayne as the "contemporary classic" brand in the category.

Delivering premium value to the category underpins the brand strategy which requires breadth of range, superior quality and product reinvention to maintain relevancy to a broad consumer target of 5 to 55 years old.

Launched in FY18, Lady Jaynes Premium Professional brush range was supported with investment in a dedicated and integrated digital and social campaign to drive new consumer trial. The new range has boosted brand health / relevancy scores and has delivered incremental sales and market share growth. The uniquely trademarked "Lady Jayne Vaddle brush" won the coveted Beauty Heaven's Glosscar Award for Best in New Hair Accessory in 2018.

The Group's FY19 focus on point of sale infrastructure investment in the pharmacy channel will support Lady Jayne as the brand beacon.

In summer 2018, Lady Jayne looks to re-energise the popular and mass appealing detangling brush category, with superior innovation and range breadth featuring the "Incredi-ball" and "New Flexi Glide" brushes in the range.



Market share growth in Facial Wipes and the holding of market leadership in Cotton

swisspers

**SWISSPERS**

Swisspers has been a trusted brand with Australian families for many years and FY18 saw the brand strengthen its position in market with share growth in facial wipes and maintaining of market leadership in cotton.

The new visual identify was successfully launched into market during the second half of FY18 and was well accepted by retailers and consumers. Clear communication of the premium quality of Swisspers and a strong shelf presence has positioned the brand for further growth in FY19. Investment in raising awareness of the range with social media opinion leaders and make-up artists helped build Swisspers reputation as an essential part of any skin care and cosmetic regime.

Some big wins in ranging were achieved in FY18. Two new Swisspers facial wipes, Micellar & Coconut Water and Coconut Oil, gained incremental ranging in Chemist Warehouse and Woolworths and have been strong performers. Furthermore, Swisspers cotton has been appointed as an exclusive brand in Metcash and Priceline in FY19.



Multix

**MULTIX**

Multix maintained share leadership in the bags, wraps and foils category in Australian grocery retail. With a key focus on product innovation in 2018, Multix launched a new "Multix Greener" sub-brand responding to changing consumer preferences for products with improved environmental credentials. This new innovation and branding saw increased shelf space allocated to Multix with our retail partners, despite challenging trading conditions in supermarkets and retailer range rationalisation. In particular the Multix non-bleached brown baking paper and Multix 100% recycled Alfoil resonated with consumers. The launch of non-plastic, plant based home compostable bin bags was also a key launch in 2018.

"Multix Greener" sub-brand responding to changing consumer preferences for products with improved environmental credentials

The Greener range has added incremental revenue to Multix, addressing the changing consumer sentiment towards sustainable products. This supports Multix in the long term and importantly the innovation has helped to broaden appeal with younger shoppers.

# Corporate Governance Statement

This statement outlines the key aspects of the McPherson's Limited Group's ("Company" or "Group") corporate governance framework and main governance practices. The Board of Directors is committed to achieving and demonstrating the highest standards of corporate governance. This is considered to be essential for the long term performance and sustainability of the Group, and to protect and enhance the interests of shareholders and other key stakeholders.

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

The Corporate Governance Statement has been approved by the Board and is current as at 21 August 2018. The statement outlines the Group's main corporate governance practices in place during the financial year ended 30 June 2018, and currently. Copies or summaries of the governance documents referred to in this statement can be found in the Corporate Governance section of the McPherson's Limited website which is located at the following address:

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



## Financial Report

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# Directors' Report

The Board of Directors presents its 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 2018.

## a) Directors

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

G.A. Cubbin (Chairman)  
 L. McAllister (Managing Director)  
 G.W. Peck (Chairman of the Audit, Risk Management and Compliance Committee, appointed on 14 December 2017)  
 A.M. Lacaze (resigned on 20 February 2018)  
 J.M. McKellar (Chairman of the Remuneration Committee)  
 P.M. Payn (resigned on 20 February 2018)  
 G.R. Pearce (appointed on 20 February 2018)  
 A.J. Mew (appointed on 24 July 2018)

## b) Principal Activities

McPherson's, established in 1860, is a leading supplier of health, beauty, household and personal care products in Australasia, with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care and fragrance product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil, personal care items such as facial wipes, cotton pads and foot comfort products.

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

The Home Appliances business, divested during the financial year, marketed and distributed large appliances such as ovens, cooktops, washing machines and dishwashers, and owns the market-leading Euromaid and Baumatic brands.

## c) Dividends

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

	\$'000
Interim ordinary dividend of 6.0 cents per fully paid ordinary share paid on 22 March 2018 (fully franked)	6,247
Final ordinary dividend of 2.5 cents per fully paid ordinary share declared by Directors (fully franked) and payable on 19 October 2018 but not recognised as a liability at year end	2,619
<b>Total dividends in respect of the year</b>	<b>8,866</b>

The 2017 final ordinary dividend of \$2,079,000 (2.0 cents per fully paid ordinary share) referred to in the Directors' Report dated 22 August 2017 was paid on 20 October 2017.

## d) Consolidated Results

The consolidated profit after tax of the Group for the year ended 30 June 2018 was \$5,176,000 (2017: loss after tax of \$9,073,000). The current year profit after tax is inclusive of significant items amounting to a net expense after tax of \$8,842,000 (2017: net expense after tax of \$22,740,000). Refer to Note 5(b) significant items for further information.

Excluding significant items, the consolidated profit after tax for the year ended 30 June 2018 was \$14,018,000 (2017: \$13,667,000).

## e) Review of Operations

The review of operations of the Group is contained in the Chairman's Report on page 4 and the Review of Operations on pages 8 to 11 of the Annual Report and forms part of this Directors' Report.

## f) Significant Changes in the State of Affairs

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

The divestment of the Group's Home Appliances business was completed in February 2018. The net consideration for this transaction was \$29.5m. An impairment charge of \$6.4m has been recognised in December 2017 against the Home Appliances business to reflect the ascribed final estimated purchase price upon its divestment. Furthermore, as a result of the finalisation of the sale, the Group recorded a loss on sale before tax and recognition of foreign exchange options hedge ineffectiveness of \$0.3m.

The McPherson's Group agreed to separate from the distribution agreement with the Coty Group in acting as an agent for the Coty Group supporting the management of brands including Gucci, Lacoste and Hugo Boss Fragrances effective 31 January 2018. This was a result of the acquisition by Coty of the rights to these fragrances from the Procter & Gamble Group.

## Directors' Report continued

### g) Events Subsequent to Balance Date

Effective 24 July 2018 Ms. Alison Mew was appointed an independent non-executive Director of the Group.

On 2 July 2018 the Group requested a reduction of its borrowing facility limit by \$1.6m.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2018 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

### h) Likely Developments and Expected Results of Operations

In the opinion of the Directors, it would prejudice the interests of the Group to include additional information, except as noted above, and as reported elsewhere in the Directors' Report and the financial statements, which relates to likely developments in the operations of the Group and the expected results of these operations in financial periods subsequent to 30 June 2018.

### i) Information on Directors

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

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

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

### Meeting of Directors

The number of Board, Audit, Risk Management and Compliance Committee, and Nomination and Remuneration Committee meetings held during the year ended 30 June 2018, and the number of meetings attended during that period by each Director, are set out below:

Director	Board Meetings		Audit, Risk Management and Compliance Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Graham A. Cubbin	9	9	4	4	4	4
Laurence McAllister	9	9	n/a	n/a	n/a	n/a
Amanda M. Lacaze <sup>1</sup>	6	6	3	3	n/a	n/a
Jane M. McKellar	9	9	1	1	4	4
Patricia M. Payn <sup>2</sup>	6	6	3	3	2	2
Grant W. Peck <sup>3</sup>	4	4	1	1	2	2
Geoffrey R. Pearce <sup>4</sup>	4	4	n/a	n/a	n/a	n/a

1) Ms. Lacaze retired as Independent Non-Executive Director on 20 February 2018

2) Ms. Payn retired as Independent Non-Executive Director on 20 February 2018

3) Mr. Peck was appointed as Independent Non-Executive Director on 14 December 2017

4) Mr. Pearce was appointed as Independent Non-Executive Director on 20 February 2018

### j) Company Secretaries

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

## Directors' Report continued

### k) Remuneration Report

#### Letter from the Chairman of the Board's Nomination and Remuneration Committee

On behalf of your Board, I am pleased to present McPherson's 2018 Remuneration Report.

FY18 has been another year of improved financial performance with growth in underlying profit before tax from continuing operations of 17%, from \$16.2m in FY17 to \$19.0m in FY18. The divestment of Home Appliances in February 2018 at a multiple of approximately 7 times EBIT, was an important outcome for the Group, enabling it to focus on its Health, Wellness and Beauty strategy. In conjunction with a positive operating cash conversion outcome, the divestment helped reduce net debt from \$36.4m at the start of the year to \$9.8m at the conclusion of FY18.

The Group's strategic direction has been validated by solid growth of 6% in sales from our core six owned brands, being Manicare, Lady Jayne, Swisspers, Dr. LeWinn's, A'kin and Multix. Other highlights in FY18 included:

- Redesign of our top 6 customer trading terms to the mutual benefit of McPherson's and its most significant customers.
- Expansion into Asian markets, where sales increased over 4 times FY17, driven by growth in Dr. LeWinn's and A'kin.
- Strengthening of key internal capabilities, particularly in logistics, product innovation and research and new business development, each being major enablers for future growth.

The successful execution of these important strategies by the Group's key management personnel (KMP) has resulted in a 39% increase in total shareholder return (TSR) in FY18. Over the three years to 30 June 2018, TSR has increased at a compound annual growth rate (CAGR) of 55%. Reflecting both the strong financial outcome in FY18 and the execution of the board approved strategies, the senior executive team, led by Managing Director Laurie McAllister, has qualified for a high proportion of their short term incentives.

In addition, certain executives also qualified for short term incentives from the achievement of specific significant outcomes relating to the Home Appliances divestment, brand strategies, logistics and new business development.

Following advice received from Guerdon Associates directly to myself, the Board decided to modify the Long Term Incentive (LTI) Plan (other than for the Managing Director), to provide an even stronger alignment to the long term financial success of the company and shareholder returns as follows:

- Increasing the maximum LTI opportunity from 20% to 40% of fixed remuneration for KMP and certain other senior executives and from 20% to 30% for other executives in FY19.
- Introducing an additional TSR element to LTI performance rights (PR) issued such that the LTI structure becomes:

Issuances of PRs (other than Managing Director)	Minimum CAGR threshold	Vesting % at minimum CAGR threshold	Pro-rata vesting to 100% vesting at CAGR of:
50% TSR CAGR over 3 years	10%	25%	15% and above
50% EPS CAGR over 3 years	5%	0%	10% and above

The Managing Director's Performance Rights vesting hurdles remain unchanged, except that his Exceptional Performance Rights maximum vesting condition is reduced from 25% Total Shareholder Return CAGR to 20%.

McPherson's Nomination and Remuneration Committee and Board are committed to ensuring that rewards for performance are competitive and appropriate, conform to market practice and have objectives that are aligned with the creation of long term value for shareholders. Consequently external benchmarking of all elements of the Managing Director's and senior executives' remuneration, including the STI and LTI elements will be undertaken on a biennial basis with the next review scheduled for April 2020.

Thank you for taking the time to review the 2018 Remuneration Report.

Yours sincerely

**Jane McKellar**

**Chairman – Nomination and Remuneration Committee**

## Directors' Report continued

### k) Remuneration Report (continued)

The McPherson's Limited 2018 remuneration report sets out key aspects of the Group's remuneration policy and framework, and provides details of the remuneration awarded to the Group's non-executive Directors, Managing Director and other key management personnel.

The remuneration report contains the following sections:

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

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

#### Key management personnel covered in this report

##### Directors

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

##### Chairman (Non-executive)

G.A. Cubbin

##### Executive Directors

L. McAllister – Managing Director

##### Non-executive Directors

A.M. Lacaze (resigned 20 February 2018)

J.M. McKellar

P.M. Payn (resigned 20 February 2018)

G.W. Peck (appointed 14 December 2017)

G.R. Pearce (appointed 20 February 2018)

##### Other key management personnel

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

Name	Position
P. Witheridge	Chief Financial Officer and Company Secretary
L. Pirozzi	International Sales Director

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

Effective 24 July 2018 Ms. Alison Mew was appointed an independent non-executive Director of the Group.

##### 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 to market practice for the delivery of rewards. The Board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

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

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

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

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

## Directors' Report continued

### k) Remuneration Report (continued)

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

	2018	2017 <sup>4</sup>	2016 <sup>4</sup>	2015 <sup>4</sup>	2014 <sup>1,4</sup>
Profit/(loss) after tax for the year from continuing operations (\$'000)	<b>11,359</b>	(387)	9,330	6,650	(69,230)
Profit after tax from continuing operations – excluding significant items (\$'000)	<b>12,944</b>	11,384	11,277	9,772	11,348
Basic earnings/(loss) per share (cents) from continuing operations	<b>10.9</b>	(0.4)	9.4	6.9	(74.8)
Basic earnings per share – excluding significant items (cents) from continuing operations <sup>2</sup>	<b>12.4</b>	11.0	11.4	10.1	12.3
Dividends declared for the relevant financial year (\$'000)	<b>8,866</b>	8,288	7,926	7,748	10,412
Dividend payout ratio as a percentage of profit/(loss) after tax for the year from continuing operations (%)	<b>78.1</b>	n/m <sup>3</sup>	84.9	116.5	n/m <sup>3</sup>
Dividend payout ratio as a percentage of profit from continuing operations excluding significant items (%)	<b>68.5</b>	72.8	70.3	79.3	91.7
Increase/(decrease) in period end share price (%)	<b>31.2</b>	48.6	54.9	(48.4)	(13.1)
Total KMP incentives as percentage of profit/(loss) from continuing operations for the year (%)	<b>5.8</b>	(139.1)	1.0	6.5	(0.0)
Total KMP incentives as percentage of profit after tax from continuing operations excluding significant items (%)	<b>5.1</b>	4.7	0.8	4.4	0.8

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

2) The basic earnings per share from continuing operations has been adjusted to exclude the EPS impact of the divested operation, Home Appliances. Consequently the EPS figures quoted differ to those reported in prior periods.

3) Ratio not considered meaningful due to loss after tax recognised for the year.

4) The comparative numbers of the Group have been restated to show the discontinued operations separately from the continuing operations.

#### Use of Remuneration Consultants

From time to time, the Board Nomination and Remuneration Committee seeks independent external advice on the appropriateness of the remuneration framework and remuneration arrangements for Directors and Executives. The Chair of the Committee oversees the engagement and payment of independent consultants. During the year, the Committee engaged Guerdon Associates as its independent consultant to provide information on remuneration matters. Work undertaken by Guerdon Associates during 2018 included the provision of information relating to the benchmarking of the Managing Director and senior executive remuneration. The Board was satisfied that advice received from Guerdon Associates was free from any undue influence by KMP about whom the advice related, because strict protocols were observed and complied with regarding any interaction between Guerdon Associates and management. All remuneration advice was provided directly to the Chair of the Committee. Guerdon Associates did not provide any remuneration recommendations as defined in section 9B of the Corporations Act 2001.

#### Nomination and Remuneration Committee

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

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

#### Executive remuneration

The executive remuneration and reward framework has three components:

- Fixed Remuneration, including superannuation and benefits;
- Short-term performance incentives; and
- Long-term incentives.

## Directors' Report continued

### k) Remuneration Report (continued)

The Remuneration Framework is summarised in the following table:

Element	Purpose	Performance Metrics	Potential Value	Changes for FY19
<b>Fixed Remuneration</b>	Provide competitive market salary which may be delivered as cash, prescribed non-cash financial benefits including motor vehicles and superannuation contributions.	Nil	Market rate	Reviewed annually to reflect increases in responsibility and to ensure it remains market competitive. Increases are not guaranteed in the executive's contract.
<b>STI</b>	Reward for current year performance.	Group or divisional earnings before interest and tax (EBIT) together with pre-determined significant role specific objectives.  Short-term cash bonuses in relation to the achievement of specific outcomes associated with certain significant events.	Target 50% of Fixed Remuneration.  At the discretion of the Remuneration Committee.	New members of the senior leadership team will have an STI target of 40% of Fixed Remuneration.
<b>LTI</b>	Alignment to long-term shareholder returns via the Performance Rights plan. Participants benefit from the vesting of Performance Rights if performance objectives are met.	Compound annual growth (CAGR) in earnings per share (EPS) and in the case of the Managing Director's Exceptional Performance Rights, total shareholder returns (TSR).	Managing Director – \$1 million per annum.  Other senior executives – 20% of Fixed Remuneration.	Other senior executives will be based on 30% - 40% of Fixed Remuneration, with 50% determined with reference to CAGR in TSR and 50% with reference to CAGR in EPS.

#### **Fixed Remuneration**

Fixed Remuneration is structured as a package amount which may be delivered as cash, prescribed non-cash financial benefits including motor vehicles and superannuation contributions at the executive's discretion. Fixed Remuneration 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 fixed remuneration 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 operating division or business most closely aligned with the executive's area or areas of responsibility, achieve or exceed pre-determined profit targets or significant specific outcomes. This ensures that variable reward is 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 in 2018 the target bonus opportunity is 50% of fixed remuneration.

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 2018 STI targets for Managing Director and senior executives were structured as follows:

- i) An STI element targeting 35% of fixed remuneration was based on Group earnings before interest and tax (EBIT) outcomes for the financial year, excluding significant, non-recurring items and adjusted for actual funds employed outcomes compared with budget; and
- ii) An STI element targeting 15% of fixed remuneration was based on achievement of specific role based key performance indicators, subject to the Group achieving at least 80% of its FY18 EBIT budget.

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

From time-to-time additional short-term cash bonuses are paid to senior executives in relation to the achievement of specific outcomes associated with certain significant events. Examples of such events may include, among others, achieving a required divestment outcome (such as the divestment of Home Appliances in FY18), completing a significant restructure project or completing a refinancing of the business. The Nomination and Remuneration Committee is responsible for determining when such bonus payments are applicable and the amount to be paid.

Subject to the discretion of the Nomination and Remuneration Committee, the target short-term incentive payable to currently serving senior executives in future years is 50% of the executive's base salary package amount. From 2019, the target short-term incentive payable to newly appointed senior executives in future years will generally be 40% of the executive's base salary package amount. The minimum payable would be zero in cases where the specified performance targets are not achieved.

## Directors' Report continued

### k) Remuneration Report (continued)

FY18 Specific short term performance metrics for each KMP are summarised in the table below:

KMP	Metric	Potential STI outcomes	FY 2018 Outcomes
<b>Managing Director</b>	<b>Financial Metrics</b>	Pro rata to target 35% of fixed remuneration	\$165,113
	i) <90% adjusted budgeted EBIT with reference to Group EBIT		
	ii) Between 90% and 110% of adjusted budgeted EBIT with reference to Group EBIT		
	iii) 110% and above adjusted budgeted EBIT with reference to Group EBIT		
	Role specific pre-determined objectives	15% of fixed remuneration	\$95,625
<b>Chief Financial Officer (and Company Secretary)</b>	Financial metrics and role specific pre-determined objectives as outlined for the Managing Director	As outlined for the Managing Director	\$110,000
	Specific significant event – divestment of Home Appliances.	At the discretion of the Nomination and Remuneration Committee	\$182,825
<b>International Sales Director</b>	Financial metrics and role specific pre-determined objectives as outlined for the Managing Director	Pro rata to target 35% of fixed remuneration	\$69,358
	Role specific pre-determined objectives	15% of fixed remuneration	\$40,169

### Long-term incentives (LTI)

Long-term incentives are provided to executives to focus them on delivering long-term shareholder returns. During the current year the Group continued with its Performance Rights plan (The McPherson's Limited Employee Performance Rights Plan) to provide long-term incentives to executives. Under this plan, participants are granted Performance Rights which only vest if certain performance conditions (relating to compound annual growth in earnings per share and total shareholder return – refer to page 33 for further information) are met and the executive is still employed by the Group at the end of the vesting period, or where not employed at the end of the vesting period is deemed to be a "good leaver" by the Board. Participation in the plan is at the discretion of the Nomination and Remuneration Committee and no individual has a contractual right to receive any guaranteed benefits. The maximum LTI opportunity for the Managing Director is \$1 million per annum and for other senior executives in 2018 is 20% of fixed remuneration.

The Board had regard for the findings of the market review carried out by the Board's independent remuneration adviser and the company's long-term strategic objectives in deciding to make the following adjustments to the variable incentive opportunity for executive KMP and other senior executives (other than the Managing Director) with effect from 2019:

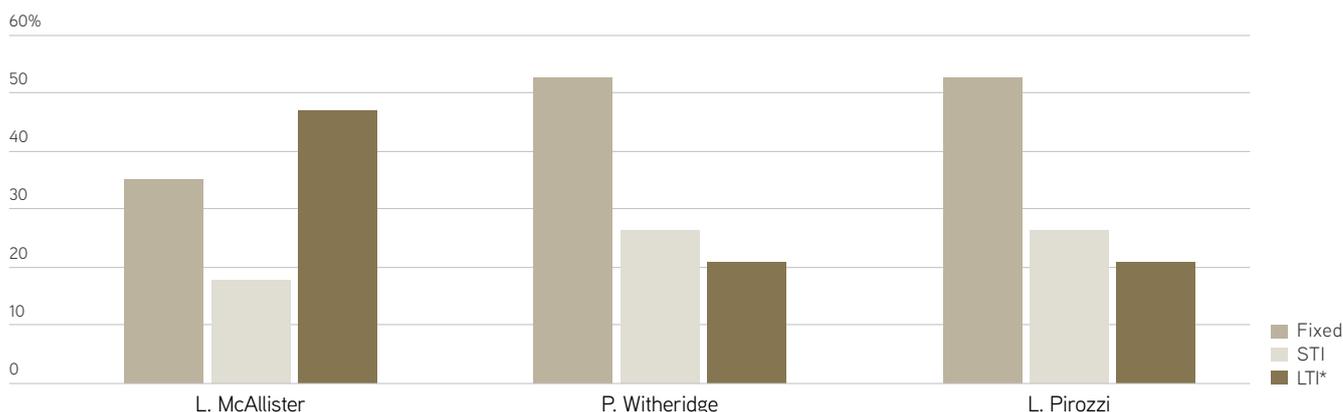
- The maximum LTI opportunity for executive KMP (other than the Managing Director) and certain other senior executives has been increased from 20% of fixed remuneration to 40% of fixed remuneration.
- The maximum LTI opportunity for other eligible executives has been increased from 20% of fixed remuneration to 30% of fixed remuneration.

Subject to the ASX Listing Rules, the Board may determine that a Right will become a Vested Right and may be exercised, whether or not any or all applicable Exercise Conditions have been satisfied if (in the Board's opinion) one of the following events has occurred or is likely to occur:

- the merger or consolidation of the Group into another entity;
- if a takeover bid is made in respect of the Group and the Board recommends acceptance to shareholders;
- if a scheme of arrangement is made or undertaken in respect of the Group, and the Board in its absolute discretion determines exercise to be appropriate;
- any event similar to those described above involving a change in ownership or control of the Group or all or substantial part of the assets of the Group; or
- any other event as determined by the Board in its absolute discretion.

Further information regarding share-based compensation in the form of Performance Rights is contained later in the Remuneration Report on page 33.

The graph below shows the structure of the FY19 remuneration opportunity mix for KMP.



\* The LTI is an unvested calculation in accordance with AASB 2 Share Based Payments and reflects the effect of the share based payment transaction on the profit and loss statement.

## Directors' Report continued

### k) Remuneration Report (continued)

#### Voting and comments made at the Company's 2017 Annual General Meeting (AGM)

Of the total votes cast in relation to the adoption of the 2017 remuneration report by shareholders present at the AGM and by proxy, 94.3% voted in favour of the resolution. Several general questions relating to remuneration and the 2017 remuneration report were asked by shareholders at the 2017 AGM, which were appropriately responded to by the Chairman and other non-executive directors at the meeting.

#### Details of remuneration

##### Amounts of remuneration

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

2018	Short-term Benefits			Termination Benefits	Post-employment Benefits	Long-term Benefits	Share-based Payments	Total
	Cash Salary & Fees <sup>1</sup>	Cash Bonus <sup>2</sup>	Non-monetary Benefits <sup>3</sup>		Super-annuation	Long-Service Leave	Performance Rights	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors of McPherson's Limited</b>								
G.A. Cubbin (Chairman)	150,248	—	—	—	14,274	—	—	164,522
L. McAllister (Managing Director)	702,593	260,738	57,143	—	25,000	12,200	352,025	1,409,699
A.M. Lacaze <sup>4</sup>	61,194	—	—	—	—	—	—	61,194
J.M. McKellar	87,513	—	—	—	8,314	—	—	95,827
P.M. Payn <sup>5</sup>	56,900	—	—	—	5,405	—	—	62,305
G.W. Peck <sup>6</sup>	44,826	—	—	—	4,258	—	—	49,084
G.R. Pearce <sup>7</sup>	27,282	—	—	—	2,592	—	—	29,874
<b>Total Directors' Remuneration 2018</b>	<b>1,130,556</b>	<b>260,738</b>	<b>57,143</b>	<b>—</b>	<b>59,843</b>	<b>12,200</b>	<b>352,025</b>	<b>1,872,505</b>
<b>Other Group Key Management Personnel</b>								
P. Witheridge	325,419	292,825	20,472	—	24,996	5,673	786	670,171
L. Pirozzi	304,682	109,527	—	—	25,175	4,413	13,901	457,698
<b>Total Other Key Management Personnel Remuneration 2018</b>	<b>630,101</b>	<b>402,352</b>	<b>20,472</b>	<b>—</b>	<b>50,171</b>	<b>10,086</b>	<b>14,687</b>	<b>1,127,869</b>
<b>Total Remuneration 2018 – Group</b>	<b>1,760,657</b>	<b>663,090</b>	<b>77,615</b>	<b>—</b>	<b>110,014</b>	<b>22,286</b>	<b>366,712</b>	<b>3,000,374</b>

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

2) Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution. Refer page 31 for further information on bonuses awarded.

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

4) Ms. A.M. Lacaze fees are paid via a related party, Morgan Consulting Pty Ltd. Refer to the Related Party note for further details. Ms. Lacaze resigned on 20 February 2018.

5) Ms. Payn resigned on 20 February 2018.

6) Mr. Peck was appointed on 14 December 2017.

7) Mr. Pearce was appointed on 20 February 2018.

# Directors' Report continued

## k) Remuneration Report (continued)

2017	Short-term Benefits			Termination Benefits	Post-employment Benefits	Long-term Benefits	Share-based Payments	Total
	Cash Salary & Fees <sup>1</sup>	Cash Bonus <sup>2</sup>	Non-monetary Benefits <sup>3</sup>		Super-annuation	Long-Service Leave	Performance Rights	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors of McPherson's Limited</b>								
G.A. Cubbin (Chairman)	136,588	—	—	—	12,976	—	—	149,564
L. McAllister (Managing Director) <sup>4</sup>	470,134	232,055	13,636	—	20,000	7,951	138,454	882,230
P.J. Maguire (Managing Director) <sup>5</sup>	258,832	—	26,826	556,055	9,776	(6,610)	79,367	924,246
A.M. Lacaze <sup>6</sup>	74,304	—	—	—	—	—	—	74,304
J.M. McKellar	73,710	—	—	—	11,251	—	—	84,961
P.M. Payn	77,590	—	—	—	7,371	—	—	84,961
<b>Total Directors' Remuneration 2017</b>	<b>1,091,158</b>	<b>232,055</b>	<b>40,462</b>	<b>556,055</b>	<b>61,374</b>	<b>1,341</b>	<b>217,821</b>	<b>2,200,266</b>
<b>Other Group Key Management Personnel</b>								
S.K.S. Chan <sup>7</sup>	466,914	123,555	—	—	41,945	—	—	632,414
P. Witheridge	319,047	182,825	15,952	—	34,996	17,287	33,409	603,516
S.R. Rorie (resigned 31 December 2016)	213,542	—	—	—	15,000	—	(18,202)	210,340
<b>Total Other Key Management Personnel Remuneration 2017</b>	<b>999,503</b>	<b>306,380</b>	<b>15,952</b>	<b>—</b>	<b>91,941</b>	<b>17,287</b>	<b>15,207</b>	<b>1,446,270</b>
<b>Total Remuneration 2017 – Group</b>	<b>2,090,661</b>	<b>538,435</b>	<b>56,414</b>	<b>556,055</b>	<b>153,315</b>	<b>18,628</b>	<b>233,028</b>	<b>3,646,536</b>

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

- 1) Cash salary and fees includes movements in the annual leave provision relating to the Managing Director and other executive key management personnel.
- 2) Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution.
- 3) Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax and allowances.
- 4) Mr McAllister was appointed Managing Director on 21 November 2016.
- 5) Mr Maguire resigned as Managing Director on 21 November 2016.
- 6) From 1 June 2016, A.M. Lacaze fees are paid via a related party, Morgan Consulting Pty Ltd. Refer to the Related Party note for further details.
- 7) 50% of S.K.S. Chan's remuneration, with the exception of the cash bonus, is recovered from a separate entity to which he provides services, being European Quality Housewares Limited.

### Relative proportions of remuneration

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

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

Name	Fixed Remuneration		At Risk – STI		At Risk – LTI	
	2018	2017	2018	2017	2018	2017
<b>Executive Director of McPherson's</b>						
L. McAllister	<b>56%</b>	58%	<b>19%</b>	26%	<b>25%</b>	16%
<b>Other key management personnel of the Group</b>						
P. Witheridge	<b>56%</b>	64%	<b>44%</b>	30%	—	6%
L. Pirozzi	<b>73%</b>	100%	<b>24%</b>	—	<b>3%</b>	—

## Directors' Report continued

### k) Remuneration Report (continued)

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

The following table shows for each KMP how much of their 2018 STI cash bonus was awarded and how much was forfeited. The table also shows the value of Performance Rights granted during the year.

Name	STI Cash Bonus <sup>1</sup>			LTI Performance Rights		
	Target Opportunity \$	Awarded as % of Target Opportunity	Forfeited %	Value Granted \$	Value Exercised \$	Value Forfeited \$
<b>Executive Director of McPherson's</b>						
L. McAllister	350,000	74%	26%	539,878	—	—
<b>Other key management personnel of the Group</b>						
P. Witheridge	182,825	60%	40%	61,446	—	—
L. Pirozzi	145,088	75%	25%	53,922	—	—

1) The STI bonus information disclosed above relates only to the regular annual STI bonus plan

Separately to the above, during the year the following bonus payment was made to KMP in relation to the achievement of the divestment of Home Appliances business.

Name	\$
<b>Other key management personnel of the Group</b>	
P. Witheridge	\$182,825

#### Summary of KMP Remuneration and KPI Objectives for FY18.

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
<b>L. McAllister</b> <b>Managing Director</b>	\$750,000 including super	Target cash bonus of 50% of fixed remuneration, comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined objectives.	Rights under the Performance Rights plan as follows: Rights to be granted as a long term incentive on an annual basis with a face value of up to a maximum of \$1 million per annum: i) High Level Performance Rights (HLPR) – rights with a face value of 50% of fixed remuneration subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period; and ii) Exceptional Level Performance Rights (ELPR) – balance of the LTI opportunity will be subject to an absolute "total shareholder return" hurdle of at least 15% per annum, measured on a compound basis over a 4 year performance period.	<ul style="list-style-type: none"> <li>Optimise funds employed by improving forecasting process, brand consolidation, SKU rationalisation, international range harmonisation and optimising trading terms.</li> <li>Provide clarity of strategy to the business, employees, shareholders and potential investors.</li> <li>Restructure the business to support strategy and key business drivers.</li> <li>Develop and implement an overseas expansion and profitability strategy.</li> <li>Revitalise existing trademarks by relaunching and rebranding.</li> <li>Retain and grow selective Agency portfolios.</li> <li>Develop a plan to optimise the supply chain.</li> </ul>
<b>P. Witheridge</b> <b>Chief Financial Officer and Company Secretary</b>	\$365,650 including super	Target cash bonus of 50% of fixed remuneration, comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined objectives.	Rights under the Performance Rights Plan equal to 20% of fixed remuneration subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period.	<ul style="list-style-type: none"> <li>Manage the successful divestment of Home Appliances.</li> <li>Assist in the establishment of rigorous criteria to assess new business opportunities and reinvestment of capital back into MCP brands.</li> <li>Drive working capital efficiency improvement initiatives.</li> <li>Reduce borrowing costs.</li> <li>Facilitate various Information Technology enhancements to improve customer service levels and improve operation efficiency.</li> <li>Develop and execute a focused plan to improve investor relations and analyst and broker engagement.</li> <li>Improve the risk reporting and risk management processes of the Group.</li> </ul>

# Directors' Report continued

## k) Remuneration Report (continued)

### Summary of KMP Remuneration and KPI Objectives for FY18 (continued)

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
<b>L. Pirozzi</b> <b>International Sales Director</b>	\$290,175 including super \$30,000 motor vehicle allowance	Target cash bonus of 50% of fixed remuneration, comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined objectives.	Rights under the Performance Rights Plan equal to 20% of fixed remuneration subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period.	<ul style="list-style-type: none"> <li>• Develop and implement quality key account plans to support the growth of Health, Wellness &amp; Beauty business. Optimise the MCP investment strategy via new trading terms and execution across key accounts.</li> <li>• Develop and implement a clear channel strategy for existing domestic channels and export.</li> <li>• Develop and lead an expansion strategy in new domestic channels and international markets.</li> <li>• Build key account capabilities to support strategy and growth.</li> </ul>

McPherson's has had a year of solid growth in underlying profit before tax and a continued, meaningful reduction in its balance sheet leverage, and the remuneration outcomes reflect these achievements.

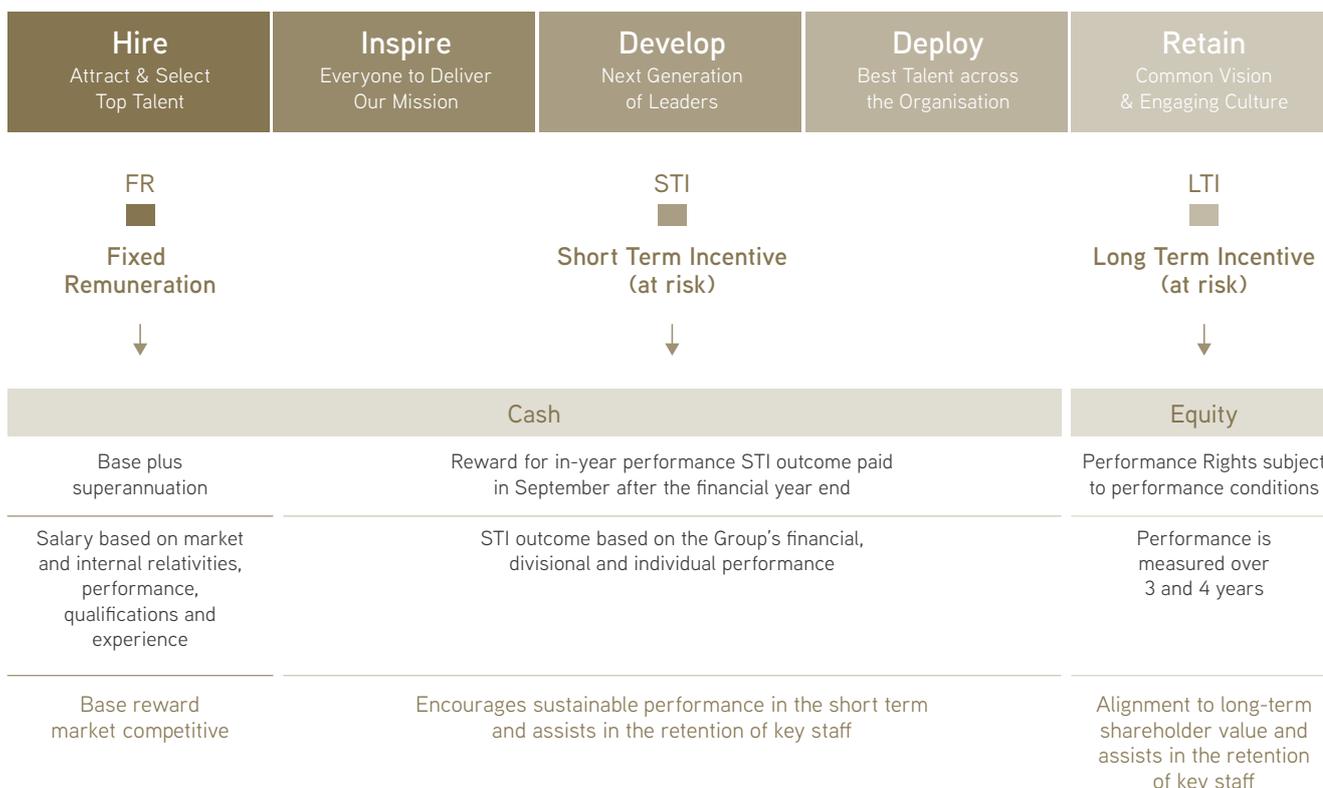
The Group's key strategic objectives for 2018 included:

- Divesting Home Appliances and resetting the focus on a Health, Wellness and Beauty strategy;
- Accelerating the core six owned brand performance;
- Embracing the export business model;
- Redesigning major customer trading terms via joint business plans;
- Executing supply chain EBIT optimisation initiatives to re-invest in the core six owned brands; and
- Returning the New Zealand operation to EBIT growth.

These objectives underpin each of the KPIs for the STI and have been key to McPherson's success in FY18.

### Remuneration structure for key management personnel

McPherson's remuneration structure as follows, is designed to support the remuneration strategy and is consistent for all key executive management personnel.



## Directors' Report continued

### k) Remuneration Report (continued)

#### Contractual arrangements for executive KMP

Remuneration and other terms of employment for the Managing Director and other senior executives are formalised in employment agreements. Each of these agreements set out details of the base package amount, inclusive of superannuation and other benefits, and provide for performance incentives. The agreements also provide for participation, when eligible, in the McPherson's Limited Performance Rights Plan.

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

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

Name	Term of agreement	Fixed remuneration including superannuation and motor vehicle benefits <sup>1</sup>	Termination benefit
<b>L. McAllister</b> Managing Director	On-going	\$750,000	Contract may be terminated on 6 months' notice by either the Company or executive.
<b>P. Witheridge</b> Chief Financial Officer and Company Secretary	On-going	\$365,650	Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive.
<b>L. Pirozzi</b> International Sales Director	On-going	\$320,175	Contract may be terminated on 1 months' notice by either the Company or executive.

1) The Fixed Remuneration amounts quoted are for the year ended 30 June 2018; they are reviewed annually by the Nomination and Remuneration Committee.

#### Share-based compensation

##### Performance Rights

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

Each Performance Right carries an entitlement to acquire one ordinary share in the Company for no consideration subject to the satisfaction of the vesting conditions which are based on performance and time related conditions. The Performance Rights carry no dividend or voting rights.

Approval for the issue of Performance Rights granted to the Managing Director was obtained under ASX Listing Rule 10.14 at the Company's 2016 Annual General Meeting.

The Commencement Rights granted to the Managing Director will vest providing Mr. McAllister continues to be the Managing Director of the Company until 1 November 2019, and may be exercised at any time after 1 November 2019 until 1 November 2024 providing Mr. McAllister is the Managing Director at that time.

The number of the Managing Director's High Level Performance Rights and the Performance Rights issued to other KMP that will vest will be determined proportionately on a straight line basis based on the compound annual growth rate (CAGR) of the Group's earnings per share excluding significant items ("Underlying EPS") over a three year period. The base year EPS to be used in determining whether the vesting conditions have been satisfied is the reported underlying EPS for the 30 June financial year immediately prior to when the rights were issued. The underlying EPS is subject to further adjustment at the discretion of the Nomination and Remuneration Committee when considered appropriate.

The rights granted in 2016 and 2017 will vest proportionately from no rights vesting if the Group's EPS CAGR is 3.0% or less to 100% of rights vesting if the Group's EPS CAGR is 8.0% or higher. The rights granted in 2018 will vest proportionately from no rights vesting if the Group's EPS CAGR is 5.0% or less to 100% of rights vesting if the Group's EPS CAGR is 10.0% or higher.

In order for the Managing Director's Exceptional Level Performance Rights to vest, the Company must achieve a Total Shareholder Return (TSR) over a four year performance period equal to at least 15% annual return on a compounded basis. Where this 15% threshold is achieved, 25% of Exceptional Level rights will vest. Vesting will be calculated on a straight line basis with 100% of Exceptional Level rights vesting where the TSR achieved over the performance period is equal to or exceeds 25% annual return on a compounded basis.

Name	Year of grant	Years in which rights may vest	Number of rights granted	Fair value of rights at grant date <sup>1</sup>	Face value of rights at grant date <sup>2</sup>	Number of rights vested during the year	Vested %	Number of rights forfeited during the year	Value at date of forfeiture	Forfeited %
<b>L. McAllister</b>										
Commencement Performance rights	2017	2020	263,000	\$222,235	\$300,000	—	—	—	n/a	—
High Level Performance Rights	2017	2020	318,000	\$270,656	\$350,000	—	—	—	n/a	—
	2018	2021	235,000	\$294,410	\$350,000	—	—	—	n/a	—
Exceptional Level Performance Rights	2017	2021	590,000	\$212,990	\$650,000	—	—	—	n/a	—
	2018	2022	436,000	\$245,468	\$650,000	—	—	—	n/a	—
	2015	2018	47,000	\$52,264	\$66,000	—	—	47,000	n/a	100
<b>P. Witheridge</b>										
	2016	2019	114,000	\$57,000	\$71,000	—	—	—	n/a	—
	2017	2020	64,000	\$56,128	\$71,000	—	—	—	n/a	—
	2018	2021	49,000	\$61,446	\$73,129	—	—	—	n/a	—
<b>L. Pirozzi</b>	2018	2021	43,000	\$53,922	\$64,035	—	—	—	n/a	—

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

2) The face value at grant date is calculated using the 20 day VWAP preceding the date of grant

## Directors' Report continued

### k) Remuneration Report (continued)

The fair value of the Performance Rights issued to Mr. L. McAllister were valued as follows:

Commencement and High Level Performance Rights – have been independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the commencement date or grant date less the present value of expected dividends forgone prior to vesting.

Exceptional Level Performance (ELP) Rights – have been independently valued at grant date using the assumptions underlying the Black-Scholes methodology to produce a simulation model which allows for the incorporation of the Total Shareholder Return (TSR) hurdle that must be met before these rights vest. Consequently, in addition to being sensitive to the dividend yield, the ELP Rights are also sensitive to market volatility and the initial TSR, with the risk free rate as a further valuation input.

The fair value of all other Performance Rights have been independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the grant date less the present value of expected dividends forgone prior to vesting.

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

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

#### **Performance Rights (units) held by KMP**

Name	Balance at start of the year	Granted as compensation	Vested rights	Lapsed	Balance at the end of the year	Vested and exercisable	Unvested
<b>L. McAllister</b>							
Commencement Performance rights	263,000	—	—	—	263,000	—	263,000
High Level Performance Rights	318,000	235,000	—	—	553,000	—	553,000
Exceptional Level Performance Rights	590,000	436,000	—	—	1,026,000	—	1,026,000
<b>P. Witheridge</b>							
Performance Rights	225,000	49,000	—	(47,000)	227,000	—	227,000
<b>L. Pirozzi</b>							
Performance Rights	—	43,000	—	—	43,000	—	43,000

#### **Shares held by key management personnel**

Name	Balance at the start of the year	Other non-remuneration changes during the year	Balance at the end of the year
<b>Directors of McPherson's Limited</b>			
G.A. Cubbin	150,000	—	150,000
L. McAllister	—	—	—
P.M. Payn (resigned 20 February 2018)	43,554	(43,554)	—
A.M. Lacaze (resigned 20 February 2018)	38,642	(38,642)	—
J.M. McKellar	—	1,560	1,560
G.W. Peck (appointed 14 December 2017)	—	14,400	14,400
G.R. Pearce (appointed 20 February 2018)	—	690,939	690,939
<b>Other key management personnel</b>			
P. Witheridge	88,000	22,000	110,000
L. Pirozzi	—	—	—

#### **Employee share schemes**

During the year, a scheme under which shares may be issued by the Company to employees for no cash consideration was approved by the Board of Directors. This scheme has been introduced to improve employee engagement, reward our employees for service and provide employees with an ownership interest in the Company, thereby improving the alignment of investor and employee objectives. All Australian resident permanent employees (excluding the Managing Director, other key management personnel of the Group and the Group Company Secretary) who have been continuously employed by the group for a period of at least one year are eligible to participate in the scheme at the discretion of the Board of Directors. Employees in other countries may also be eligible to participate in the scheme subject to the relevant taxation laws in those jurisdictions. Employees may elect not to participate in the scheme.

Under the scheme, eligible employees may be granted up to \$1,000 worth of fully paid ordinary shares in the Group annually for no cash consideration. The shares will vest on 31 July 2019 provided the employee remains employed by the Group. The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the week up but excluding the date of issue (31 July 2019).

Applications under the scheme are accepted at the discretion of the Board of Directors.

## Directors' Report continued

### k) Remuneration Report (continued)

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

	2018	2017
Number of shares estimated to be issued in July 2019 under the plan to participating employees	140,176	—

The above estimate is based on the assumption that each participant is eligible to shares worth \$1,000 based on market price on 30 June 2018 of \$1.705. The shares were granted on 31 May 2018 when the market price was \$1.575.

#### Non-executive Directors

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Remuneration of non-executive Directors is determined by the Board within an aggregate non-executive Directors' fee pool limit which is periodically recommended for approval by the shareholders. The aggregate was last considered by shareholders at the Annual General Meeting in 2010 when a total remuneration of \$550,000 inclusive of superannuation was approved. Including superannuation guarantee contributions made on their behalf by the Company, non-executive Director remuneration for the year ended 30 June 2018 totalled \$462,806 (2017: \$393,790).

In July 2018 the Board resolved, subject to shareholder approval, to increase the maximum total fees that may be paid to non-executive directors by \$100,000 per annum. At the 2018 Annual General Meeting, the Board will ask shareholders to approve the increase in the fee pool from \$550,000 to \$650,000 per annum, as a consequence of an increase in the number of non-executive directors from four to five, to provide capacity for the fees to be increased if required and to provide the flexibility to appoint an additional Director if it was considered appropriate to do so.

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

The remuneration of individual non-executive Directors was last reviewed by the Nomination and Remuneration Committee on 1 July 2017, at which time non-executive Director fees and committee fees were increased by 10%, the previous fee increase being 3% on 1 October 2014. The Chairman and other non-executive Directors receive additional fees for their membership of the Board's Audit, Risk Management and Compliance Committee. The Chairman of the Nomination and Remuneration Committee also receives an additional fee, however the members of that committee do not. Directors may direct the Company to make superannuation guarantee contributions, or additional superannuation contributions allocated from their Directors' or committee membership fees, to any complying nominated superannuation fund.

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

The following fees applied for the year ended 30 June 2018 and continue to apply at the date of this report:

	From 1 July 2017
<b>Base fees</b>	
Chairman	\$144,243
Other non-executive Directors	\$75,730
<b>Additional fees</b>	
Audit, Risk Management & Compliance Committee – Chairman	\$9,620
Audit, Risk Management & Compliance Committee – Member	\$6,006
Nomination & Remuneration Committee – Chairman	\$9,620

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

#### Additional information

##### Loans to Directors and Executives

There were no loans made to Directors of McPherson's Limited or to any KMP 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 KMP on terms and conditions no more favourable than those adopted when dealing with other employees at arm's length in the same circumstances.

There were no transactions between the Group and the Directors of McPherson's Limited or with any KMP 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 performance rights and shares.

### l) Shares under option

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

#### Shares issued on the exercise of options

No ordinary shares of McPherson's Limited were issued during the year ended 30 June 2018 (2017: Nil), or since that date, under the McPherson's Limited Employee Share/Option Purchase Plan as no options were exercised. There are no options outstanding at the date of this report.

## Directors' Report continued

### m) Indemnification and insurance of officers

The Group has agreed to indemnify the current Directors and certain current executives of the Group against all liabilities to another person (other than the Group or a related body corporate) that may arise from their position as Directors or officers of the Group, to the extent permitted by law. The agreement stipulates that the Group 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 Group. The Directors and officers covered by the insurance policy include the current Directors and Secretaries of McPherson's Limited, Directors or Secretaries of controlled entities who are not or were not also Directors or Secretaries of McPherson's Limited, senior management of the Group and senior management of divisions and controlled entities of McPherson's Limited. As the insurance policy operates on a claims made basis, former Directors and officers of the Group are also covered.

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

### n) Environmental regulation

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

### o) Proceedings on behalf of the Group

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 Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

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

### p) Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with 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*.

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

	Consolidated	
	2018	2017
	\$	\$
<b>Other services</b>		
<b>PricewaterhouseCoopers Australian firm:</b>		
Information and communications technology (ICT) review	85,000	—
AASB 9 Advisory	—	10,500
Tax advice relating to employee Performance Rights plan	—	3,400
Consulting services associated with due diligence review	—	76,795
<b>Total remuneration for other services</b>	<b>85,000</b>	90,695
<b>Total remuneration for non-audit services</b>	<b>85,000</b>	90,695

## Directors' Report continued

### q) Rounding

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

### r) Audit, Risk Management and Compliance Committee

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

- G.W. Peck (Chairman)
- G.A. Cubbin
- J.M. McKellar

### 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 38.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 22nd day of August 2018.



**G.A. Cubbin**  
Director



**L. McAllister**  
Director

## Auditor's Independence Declaration



### *Auditor's Independence Declaration*

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2018, 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.

A handwritten signature in blue ink, appearing to read 'S.T. Maher', is written over a light blue horizontal line.

Shannon Maher  
Partner  
PricewaterhouseCoopers

Sydney  
22 August 2018

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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## Directors' Declaration

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

- a) the financial statements and notes as set out on pages 46 to 87 and the remuneration report on pages 24 to 35 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 2018 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 33 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 33.

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

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

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

Dated at Sydney this 22nd day of August 2018.



**G.A. Cubbin**  
Director



**L. McAllister**  
Director

# Independent Auditor's Report



## *Independent auditor's report*

To the members of McPherson's Limited

### *Report on the audit of the financial report*

---

#### *Our opinion*

In our opinion:

The accompanying financial report of McPherson's Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

---

#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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#### ***PricewaterhouseCoopers, ABN 52 780 433 757***

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# Independent Auditor's Report



## Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of \$0.72 million, which represents approximately 5% of the Group's profit before tax from continuing operations.</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>We chose Group profit before tax from continuing operations because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.</li> <li>We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>We conducted our audit for the most significant operations being McPherson's Consumer Products Pty Limited and Home Appliances Pty Limited. We performed specific audit procedures on the remaining operations and other account balances to obtain sufficient appropriate audit evidence to express an opinion on the Group financial report as a whole.</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:                         <ul style="list-style-type: none"> <li>Impairment of goodwill and brand names</li> <li>Provision for slow moving and obsolete inventory</li> </ul> </li> <li>These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>

# Independent Auditor's Report



acceptable thresholds.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment of goodwill (carrying value of \$15.7m) and brand names (carrying value of \$56.8m)</b> (Refer to note 1 and 16)</p> <p>The transformation of the Group's business and the present challenges in the trading environment, such as increasing costs driven by the weak Australian dollar and customer demand, provide uncertainty and require significant judgement in relation to the future cash flows. This has an impact on the value in use and the possibility of impairment of the intangible assets is an area of focus for management.</p> <p>During December 2017 the Group entered into a sale and purchase agreement to sell certain major assets and liabilities in Home Appliances Pty Limited (together, the 'disposal group') effective 28 February 2018. Consequently management performed an impairment assessment for the disposal group (including goodwill and brand names) as a whole based on the estimated final purchase price less costs to sell. This resulted in an impairment charge of \$6.4m against goodwill as at 31 December 2017. The carrying value of the disposal group were derecognised on 28 February 2018 with an additional loss of sale before income tax and extinguishment of foreign exchange options of \$0.3m.</p> <p>Significant judgement is required to estimate the key assumptions in the models prepared by the Group to determine the recoverable amount of the goodwill and brand names and the amount of any impairment. The most significant areas of judgement relate to:</p> <ul style="list-style-type: none"> <li>• Cash flow forecasts, including the terminal value forecasts;</li> <li>• Short-term and long-term growth rates; and</li> </ul>	<p>We have performed procedures over the impairment models. This has involved assessment of whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU and a reasonable allocation of corporate assets and overheads.</p> <p>In assessing the models and the Group's ability to forecast, we have evaluated and challenged the Group's future cash flow forecasts in the models and understood the process by which they were calculated. We have also compared a bridge of FY18 actuals to FY19 budget being the first year of the cash flow models.</p> <p>In addition we tested that forecast cash flows used in the impairment models were consistent with the most up-to-date budgets and business plans formally approved by the Board. We also tested the mathematical accuracy of the models.</p> <p>We compared the discount rates and growth rates used in the models to benchmarks developed by our valuation specialists, which are based on market data and industry research.</p> <p>We also considered the adequacy of disclosures made in the financial statements, including their appropriateness under the accounting standards.</p>

# Independent Auditor's Report



## Key audit matter

## How our audit addressed the key audit matter

- The discount rates.

McPherson's Limited considers the McPherson's Consumer Products Australia and Home Appliances businesses as separate cash generating units ("CGU's").

Given the level of judgement involved and the magnitude of the intangible assets recognised on the Group's balance sheet, we determined that this was a key audit matter.

### **Provision for slow moving and obsolete inventory (\$38.4m)** (Refer to note 1 and 12)

The Group has gross inventories of \$41.6m with a provision of \$3.2m for inventory obsolescence/slow moving and discontinued stock. Inventory consists of raw materials, finished goods and stock in transit.

There has been a continued focus on core brands and reduced use of certain categories of inventory. As management measures inventory at the lower of cost and net realisable value, there is risk that the non-core items are sold below cost.

Given the level of judgement involved in calculating the provision and the magnitude of inventory recognised on the Group's balance sheet, we determined that this was a key audit matter.

We performed the following procedures:

- Compared the latest sales price available to their cost to check items were either sold above cost or provided for;
- Compared line items at year-end to forecasted 12 months sales extrapolated based on recent sales data to identify slow-moving lines and assess their adequacy of provisioning;
- Assessed post year-end sales to test whether there is significant movement in relation to slow-moving line items; and
- Attended a physical stocktake where we tested a sample to verify the existence of the inventory items and identify any damaged inventory items.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report, including FY2018 Key Highlights, Chairman's Report, Managing Director's Report, Category Overview, Corporate Governance Statement, Shareholder Information and the Corporate Directory.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

# Independent Auditor's Report



In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

---

### *Responsibilities of the directors 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 *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

---

### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

# Independent Auditor's Report



## *Report on the remuneration report*

---

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 24 to 35 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

---

### *Responsibilities*

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.

A blue ink signature of a PricewaterhouseCoopers representative, written in a cursive style.

PricewaterhouseCoopers

A blue ink signature of Shannon Maher, written in a cursive style.

Shannon Maher  
Partner

Sydney  
22 August 2018

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 \$'000	2017 <sup>1</sup> \$'000
<b>Continuing operations</b>			
<i>Revenue</i>			
Sales revenue	3	210,430	211,157
Interest	3	2	46
<b>Total revenue</b>		<b>210,432</b>	<b>211,203</b>
Gain on sale of business	4	—	192
Other income	4	592	409
<b>Total revenue and other income</b>		<b>211,024</b>	<b>211,804</b>
<i>Expenses</i>			
Materials and consumables used		(113,361)	(116,870)
Employee costs		(33,056)	(32,885)
Advertising and promotional		(19,338)	(17,131)
Cartage and freight		(7,347)	(7,472)
Third party warehousing		(2,130)	(2,728)
Rental expenses relating to operating leases		(4,550)	(4,868)
Depreciation		(1,430)	(1,498)
Amortisation of other intangibles		(778)	(769)
Restructure costs		(518)	(1,556)
Other expenses		(7,477)	(6,651)
Borrowing costs	5(a)	(3,956)	(5,779)
Impairment of intangible assets	16	—	(9,565)
<b>Profit from continuing operations before income tax</b>		<b>17,083</b>	<b>4,032</b>
Income tax expense	8(b)	(5,724)	(4,419)
<b>Profit/(Loss) from continuing operations for the year</b>		<b>11,359</b>	<b>(387)</b>
<b>Discontinued operations</b>			
Loss from discontinued operations, net of income tax	14	(6,183)	(8,686)
<b>Profit/(Loss) for the year after tax</b>		<b>5,176</b>	<b>(9,073)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges	25(a)	4,698	1,280
Exchange differences on translation of foreign operations	25(a)	392	(621)
Reclassification to profit or loss	25(a)	(529)	—
Income tax (expense) relating to these items	25(a)	(1,249)	(380)
<b>Other comprehensive income for the year</b>		<b>3,312</b>	<b>279</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>8,488</b>	<b>(8,794)</b>
Total comprehensive income for the year to owners of McPherson's Limited arises from:			
Continuing operations		14,782	(108)
Discontinued operations		(6,294)	(8,686)
		<b>8,488</b>	<b>(8,794)</b>
		Cents	Cents
Basic earnings/(loss) per share	30	5.0	(8.8)
Diluted earnings/(loss) per share	30	5.0	(8.8)
Basic earnings/(loss) per share from continuing operations <sup>1</sup>	30	10.9	(0.4)
Diluted earnings/(loss) per share from continuing operations <sup>1</sup>	30	10.9	(0.4)

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

1) The 2017 comparative numbers of the Group have been restated to show the discontinued operations separately from the continuing operations.

# Consolidated Balance Sheet

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents	10	8,607	6,584
Trade and other receivables	11	29,930	40,221
Inventories	12	38,438	59,365
Derivative financial instruments	13	1,559	—
Current tax assets		—	241
<b>Total current assets</b>		<b>78,534</b>	106,411
<b>Non-current assets</b>			
Property, plant and equipment	15	3,268	4,928
Intangible assets	16	73,900	92,994
Deferred tax assets	17	200	104
<b>Total non-current assets</b>		<b>77,368</b>	98,026
<b>Total assets</b>		<b>155,902</b>	204,437
<b>Current liabilities</b>			
Trade and other payables	18	27,958	48,640
Borrowings	19	18,454	18,406
Derivative financial instruments	13	—	2,036
Provisions	20	7,028	10,052
Current tax liabilities		2,919	2,497
<b>Total current liabilities</b>		<b>56,359</b>	81,631
<b>Non-current liabilities</b>			
Borrowings	21	—	24,600
Derivative financial instruments	13	—	559
Provisions	22	743	943
Deferred tax liabilities	23	8,780	8,218
<b>Total non-current liabilities</b>		<b>9,523</b>	34,320
<b>Total liabilities</b>		<b>65,882</b>	115,951
<b>Net assets</b>		<b>90,020</b>	88,486
<b>Equity</b>			
Contributed equity	24	155,882	154,790
Reserves	25(a)	4,828	1,236
Accumulated losses	25(b)	(70,690)	(67,540)
<b>Total equity</b>		<b>90,020</b>	88,486

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 2018

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 1 July 2017</b>		<b>154,790</b>	<b>1,236</b>	<b>(67,540)</b>	<b>88,486</b>
Profit for the year		—	—	5,176	5,176
Other comprehensive income		—	3,312	—	3,312
<b>Total comprehensive income</b>		<b>—</b>	<b>3,312</b>	<b>5,176</b>	<b>8,488</b>
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	24	1,092	—	—	1,092
Dividends provided for or paid	6	—	—	(8,326)	(8,326)
Share-based payment transactions with employees	25(a)	—	280	—	280
<b>Total transactions with shareholders</b>		<b>1,092</b>	<b>280</b>	<b>(8,326)</b>	<b>(6,954)</b>
<b>Balance at 30 June 2018</b>		<b>155,882</b>	<b>4,828</b>	<b>(70,690)</b>	<b>90,020</b>
<b>Balance at 1 July 2016</b>		<b>154,042</b>	<b>635</b>	<b>(50,192)</b>	<b>104,485</b>
(Loss) for the year		—	—	(9,073)	(9,073)
Other comprehensive income		—	279	—	279
<b>Total comprehensive income</b>		<b>—</b>	<b>279</b>	<b>(9,073)</b>	<b>(8,794)</b>
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	24	748	—	—	748
Dividends provided for or paid	6	—	—	(8,275)	(8,275)
Share-based payment transactions with employees	25(a)	—	322	—	322
<b>Total transactions with shareholders</b>		<b>748</b>	<b>322</b>	<b>(8,275)</b>	<b>(7,205)</b>
<b>Balance at 30 June 2017</b>		<b>154,790</b>	<b>1,236</b>	<b>(67,540)</b>	<b>88,486</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 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		291,710	312,300
Payments to suppliers and employees (inclusive of GST)		(276,417)	(281,480)
Interest received		2	46
Interest and borrowing costs paid		(3,210)	(5,249)
Income taxes paid		(5,193)	(1,411)
<b>Net cash inflows from operating activities</b>	34	<b>6,892</b>	24,206
<b>Cash flows from investing activities</b>			
Payments for purchase of property, plant and equipment		(1,671)	(1,549)
Payments for purchase of other intangible assets		(144)	(348)
Proceeds from sale of business assets	14	30,253	483
Proceeds from sale of property, plant and equipment		10	24
<b>Net cash inflows/(outflows) from investing activities</b>		<b>28,448</b>	(1,390)
<b>Cash flows from financing activities</b>			
Share issue transaction costs	24	(5)	(5)
Proceeds from borrowings		81,048	82,404
Repayment of borrowings		(81,000)	(80,650)
Bonds buyback		(25,600)	(25,850)
Interest rate swaps extinguishment		(681)	(969)
Dividends paid		(7,229)	(7,522)
<b>Net cash outflows from financing activities</b>		<b>(33,467)</b>	(32,592)
<b>Net increase/(decrease) in cash held</b>		<b>1,873</b>	(9,776)
Cash at beginning of financial year		6,584	16,490
Effects of exchange rate changes on cash		150	(130)
<b>Cash held at end of financial year</b>	10	<b>8,607</b>	6,584

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

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies

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

### a) Basis of preparation

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

### Compliance with IFRS

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

### Historical cost convention

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

### New and amended standards

The Group has applied the following amendments to Australian Accounting Standard for the first time for their annual reporting period commencing 1 July 2017:

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.

The adoption of these amendments did not have any impact on the amounts recognised in prior years and will also not affect the current or future years.

The amendments to AASB 107 require disclosure of changes in liabilities arising from financing activities, see Note 34(c).

None of the other new standards and amendments to standards that were mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current year or any prior year. New standards that have been issued but are not yet effective for the financial year beginning 1 July 2017 and have not been early adopted have been considered in Note 1(aa).

### b) Principles of consolidation

#### Subsidiaries

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

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

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

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

### Changes in ownership interests

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

### Joint arrangements

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

### Equity method

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

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

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

### c) Segment Reporting

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

### d) Foreign currency translation

#### Functional and presentation currency

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

#### Transactions and balances

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

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies (continued)

### d) Foreign currency translation (continued)

#### Group companies

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

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

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

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

### e) Revenue recognition

#### Sales revenue

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

#### Other income

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

### f) Income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

#### Investment Allowances

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

#### Tax consolidation legislation

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

### 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.

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies (continued)

### h) Business combinations

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

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

### i) Impairment of assets

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

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

### j) Cash and cash equivalents

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

### k) Trade receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

### l) Inventories

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

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

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

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

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

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

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

### n) Investments and other financial assets

#### i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies (continued)

### n) Investments and other financial assets (continued)

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

The Group classifies the following financial assets at fair value through profit or loss:

- debt investments that do not qualify for measurement at either amortised cost or at fair value through other comprehensive income
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income.

#### iii) Other financial assets at amortised cost

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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. Financial assets at amortised cost are included in receivables in the balance sheet.

#### iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

#### o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

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

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within finance costs.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the option contract as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve within equity. The changes in the time value of the option contracts that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of the intrinsic value of option contracts is treated as follows: Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred aligned time value of the option contracts are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- The gain or loss relating to the effective portion of the spot component of forward contracts is treated as follows: Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred aligned forward points are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance cost'.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Hedge ineffectiveness is recognised in profit or loss within finance cost.

#### p) Fair value estimation

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

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

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

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies (continued)

### q) Property, plant and equipment

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

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

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

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

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

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

### r) Intangible assets

#### i) Goodwill

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

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

#### ii) Brand names

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

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

Brand names 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 brand name is determined based on the higher of value-in-use or fair value less costs to sell.

#### iii) IT development and software

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

#### iv) Research and development

Research expenditure and development expenditure that do not meet the criteria in (iii) above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### s) Trade and other payables

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

#### t) Provisions

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

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

#### u) Employee benefits

##### i) Short-term obligations

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

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

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

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies (continued)

### u) Employee benefits (continued)

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

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

#### vi) Employee benefit on-costs

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

#### vii) Share-based payments

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

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

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

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

### v) Contributed equity and dividends

#### i) Contributed equity

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

#### ii) Dividends

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

### w) Earnings per share

#### i) Basic earnings per share

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

#### ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account all dilutive potential ordinary shares arising from commencement rights granted to the Group's Managing Director and estimated number of shares to be issued under the employee share scheme (refer to Note 30).

### x) Borrowings and borrowing costs

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

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

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

Borrowing costs are expensed as incurred.

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

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

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

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

# Notes to and Forming Part of the Financial Statements

## 1. Summary of significant accounting policies (continued)

### z) Rounding of amounts

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

### aa) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The following new standards have been issued but are not yet effective for the financial year beginning 1 July 2017 and have not been early adopted:

#### **AASB15 'Revenue from contracts with customers'**

##### *Nature of change*

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

##### *Impact*

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following area that will be affected:

Presentation of contract assets and contract liabilities in the balance sheet – AASB 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 July 2018 in relation to contract liabilities in relation to expected discounts, rebates and rights to return, which are currently included in other balance sheet line items.

##### *Date of adoption by Group*

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of adoption will be recognised in retained earnings as of 1 July 2018 and that the comparatives will not be restated.

#### **AASB16 'Leases'**

##### *Nature of change*

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

##### *Impact*

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$17,363,000, see Note 27. The Group estimates that approximately 2-3% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

##### *Date of adoption by Group*

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

### ab) Parent entity financial information

The financial information for the parent entity, McPherson's Limited, disclosed in Note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### **Investments in subsidiaries**

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

### ac) Critical accounting estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The area involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant is 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 16 for details of these assumptions.

#### **Provision for stock obsolescence**

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

### ad) Reclassification

Certain comparative amounts have been reclassified to conform with the current year's presentation to better reflect the nature of the financial position and performance of the Group.

# Notes to and Forming Part of the Financial Statements

## 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.

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

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

### Foreign exchange risk

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

### Interest rate risk

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

The Group holds the following financial instruments:

	2018 \$'000	2017 \$'000
<b>Financial assets</b>		
Cash and cash equivalents (Note 10)	8,607	6,584
Trade and other receivables (Note 11)	29,930	40,221
Derivatives financial instruments (Note 13)	1,559	—
	<b>40,096</b>	<b>46,805</b>
<b>Financial liabilities</b>		
Trade and other payables (Note 18)	27,958	48,640
Borrowings (Notes 19 and 21)	18,454	43,006
Derivative financial instruments (Note 13)	—	2,595
	<b>46,412</b>	<b>94,241</b>

The fair value measurements of the derivative financial instruments are shown in Note 2(e).

### a) Foreign exchange risk

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

The Board's risk management policy is to hedge 100% of anticipated cash flows (mainly inventory purchases) in United States dollars for twelve months subsequent. At balance date 100% (2017: 100%) of projected USD purchases qualified as "highly probable" forecast transactions for hedge accounting purposes. The Group also hedges material exposures arising in foreign currencies other than USD. The Group uses a mixture of foreign currency options and forward exchange contracts to hedge its exposures to foreign currency. The weighted average hedged rate for the AUD/USD hedges the Group had in place at 30 June 2018 was 0.7617 (2017: 0.7316).

# Notes to and Forming Part of the Financial Statements

## 2. Financial risk management (continued)

### a) Foreign exchange risk (continued)

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

	\$'000							
	USD	NZD	Euro	GBP	RMB	HKD	AUD	CNY
<b>30 June 2018 – Group</b>								
Trade receivables	1,850	–	62	–	–	–	927	166
Trade payables	214	1	149	77	–	2,107	460	–
Forward foreign exchange contracts – buy foreign currency	31,196	–	–	–	–	–	–	3,477
Foreign currency options – buy foreign currency	20,545	–	–	–	–	–	–	–
<b>30 June 2017 – Group</b>								
Trade receivables	220	26	–	41	165	–	986	–
Trade payables	328	3	200	122	19	2,082	360	–
Forward foreign exchange contracts – buy foreign currency	45,039	–	6,348	–	–	–	–	–
Foreign currency options – buy foreign currency	39,642	–	–	–	–	–	–	–

### Group Sensitivity

Based on the financial instruments held at 30 June 2018, 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 \$1,576,026 higher/\$2,024,529 lower (2017: \$1,557,134 higher/\$1,966,615 lower), arising from forward foreign exchange contracts and foreign currency options designated as cash flow hedges. The Group's exposure to unhedged amounts is not material.

### b) Interest rate risk

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

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

At 30 June 2018, \$454,000 of the Group's debt is at fixed rates. The remainder of the Group's debt is at variable rates.

	Weighted average interest rate <sup>1</sup>	Balance \$'000	% of total loans
<b>2018</b>			
<b>Bank loans – variable rate</b>	<b>2.0%</b>	<b>18,000</b>	<b>98%</b>
Net exposure to cash flow interest rate risk		18,000	
<b>2017</b>			
Bank loans – variable rate	1.9%	18,000	42%
Bonds – variable rate	6.1%	10,000	23%
Interest rate swaps (notional principal amount)	4.1%	(15,000)	
<b>Net exposure to cash flow interest rate risk</b>		<b>13,000</b>	

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

### c) Credit risk

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### 2. Financial risk management (continued)

#### c) Credit risk (continued)

##### Trade receivables

The loss allowance provision as at 30 June 2018 is determined as follows; the expected credit losses below also incorporate forward looking information.

2018	Neither past due nor impaired	Less than 30 days	30 to 59 days	60 to 89 days	90 to 119 days	120 days or more	Total \$'000
Expected loss rate	0%	0%	0%	0%	0%	87.1%	0.4%
Gross carrying amount	18,890	7,775	54	253	2	139	27,113
Loss allowance provision	—	—	—	—	—	121	121

#### 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.

	2018 \$'000	2017 \$'000
<b>Financing Arrangements</b>		
The Group has access to the following undrawn borrowing facilities at the end of the reporting period:		
<b>Unused at balance date – floating rate</b>		
Expiry within one year (bank overdraft and loans)	17,000	5,000
Expiring beyond one year (bank loans)	—	28,000
	<b>17,000</b>	<b>33,000</b>

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

#### Maturity profile of the Group's borrowings

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

	Less than 1 Year \$'000	Between 1 & 2 Years \$'000	Between 2 & 3 years \$'000	Between 4&6 years \$'000	Total Contractual Cash Flows \$'000	Carrying Amount \$'000
<b>30 June 2018</b>						
<b>Non-derivatives</b>						
Payables	27,958	—	—	—	27,958	27,958
Borrowings	18,739	—	—	—	18,739	18,454
<b>Total non-derivative financial liabilities</b>	<b>46,697</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>46,697</b>	<b>46,412</b>
<b>30 June 2017</b>						
<b>Non-derivatives</b>						
Payables	48,640	—	—	—	48,640	48,640
Borrowings	20,345	11,675	17,130	—	49,150	43,006
<b>Total non-derivative financial liabilities</b>	<b>68,985</b>	<b>11,675</b>	<b>17,130</b>	<b>—</b>	<b>97,790</b>	<b>91,646</b>
<b>Derivatives</b>						
Forward foreign exchange contracts – inflow	(51,388)	—	—	—	(51,388)	—
Forward foreign exchange contracts – outflow	52,421	—	—	—	52,421	1,033
	1,033	—	—	—	1,033	1,033
Interest rate contracts	293	293	266	—	852	852
Foreign currency options	710	—	—	—	710	710
<b>Total derivative financial instrument liabilities</b>	<b>2,036</b>	<b>293</b>	<b>266</b>	<b>—</b>	<b>2,595</b>	<b>2,595</b>

## Notes to and Forming Part of the Financial Statements

### 2. Financial risk management (continued)

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

The following financial instruments held by the Group were measured and recognised at fair value at 30 June 2018 and 30 June 2017 on a recurring basis:

	30 June 2018				30 June 2017			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements								
<b>Financial assets at fair value</b>								
Derivative financial instruments	–	1,559	–	1,559	–	–	–	–
Total financial assets at fair value	–	1,559	–	1,559	–	–	–	–

	30 June 2018				30 June 2017			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements								
<b>Financial liabilities at fair value</b>								
Derivative financial instruments	–	–	–	–	–	2,595	–	2,595
Total financial liabilities at fair value	–	–	–	–	–	2,595	–	2,595

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 forward exchange and option contracts is determined using forward exchange market rates and volatilities at the end of the reporting period.

There are no Level 1 or 3 instruments noted as at 30 June 2018 or 30 June 2017.

### 3. Revenue

	2018 \$'000	2017 \$'000
<b>Revenue from operating activities:</b>		
Sales revenue	210,430	211,157
<b>Other revenue:</b>		
Interest	2	46
<b>Total revenue from continuing operations</b>	<b>210,432</b>	<b>211,203</b>

## Notes to and Forming Part of the Financial Statements

<b>4. Other Income</b>		
	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Gain on sale of business	–	192
Other income	<b>592</b>	409
<b>Total other income from continuing operations</b>	<b>592</b>	601
<b>5. Operating Profit</b>		
<b>a) Profit before income tax expense from continuing operations includes the following net expenses and gains:</b>		
	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Expenses:</b>		
Total rental expenses relating to operating leases	<b>4,550</b>	4,868
Bad and doubtful debts - trade debtors	<b>5</b>	(3)
Provision for stock obsolescence	<b>756</b>	1,932
<b>Other provisions:</b>		
Employee entitlements	<b>1,916</b>	1,985
Employee incentives	<b>1,509</b>	1,545
Claims, returns and warranty	<b>(419)</b>	442
Restructure	<b>380</b>	(20)
Other	<b>(30)</b>	69
<b>Total other provisions from continuing operations</b>	<b>3,356</b>	4,021
<b>Materials and consumables used from continuing operations:</b>		
Cost of goods sold	<b>112,595</b>	117,526
Net foreign exchange loss/(gains)	<b>766</b>	(656)
<b>Finance costs from continuing operations:</b>		
Amortisation of refinancing costs	<b>220</b>	515
Borrowing costs	<b>2,307</b>	3,927
Termination of interest rate swaps associated with refinancing	<b>–</b>	78
Hedging ineffectiveness due to extinguishment of interest rate swaps	<b>497</b>	–
Cost associated with buy back of bonds	<b>932</b>	1,259
	<b>3,956</b>	5,779

# Notes to and Forming Part of the Financial Statements

## 5. Operating Profit (continued)

### b) Significant items

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

	2018 \$'000	2017 \$'000
i) Costs associated with buy back of bonds	(932)	(1,259)
Less: Applicable income tax benefit	280	378
	(652)	(881)
ii) Restructure costs	(518)	(1,556)
Less: Applicable income tax benefit	152	182
	(366)	(1,374)
iii) Hedging ineffectiveness due to extinguishment of interest rate swaps	(497)	—
Less: Applicable income tax benefit	149	—
	(348)	—
iv) Impairment of brand names within the Australian business segment (Note 16)	—	(6,875)
Less: Applicable income tax benefit	—	—
	—	(6,875)
v) Impairment of New Zealand business segment (Note 16)	—	(2,690)
Less: Applicable income tax expense and impairment of net deferred tax assets	(219)	(143)
	(219)	(2,833)
vi) Gain recognised on divestment of Impulse Merchandising business in Singapore	—	192
Less: Applicable income tax expense	—	—
	—	192
Total significant items from continuing operations	(1,947)	(12,188)
Less: Applicable income tax benefit from continuing operations	362	417
	(1,585)	(11,771)
vii) Impairment of goodwill related to Home Appliances business (Note 14, 16)	(6,444)	(7,000)
Less: Applicable income tax benefit	—	—
	(6,444)	(7,000)
viii) Loss recognised on divestment of Home Appliances business inclusive of Foreign Exchange options ineffectiveness (Note 14 (c))	(470)	—
Less: Applicable income tax benefit (Note 14 (c))	211	—
	(259)	—
ix) Redundancy costs related to Home Appliances business	(792)	(40)
Less: Applicable income tax benefit	238	12
	(554)	(28)
x) Impairment of brand names within the Home Appliances business	—	(5,000)
Less: Applicable income tax benefit	—	1,059
	—	(3,941)
Total significant items from discontinued operations	(7,706)	(12,040)
Less: Applicable income tax benefits from discontinued operations	449	1,071
	(7,257)	(10,969)
<b>Total significant items</b>	<b>(9,653)</b>	<b>(24,228)</b>
<b>Less: Applicable income tax benefits</b>	<b>811</b>	<b>1,488</b>
	<b>(8,842)</b>	<b>(22,740)</b>

# Notes to and Forming Part of the Financial Statements

## 5. Operating Profit (continued)

### b) Significant items (continued)

#### **Cost associated with buy back of bonds**

In the current year the Group purchased \$10,000,000 of unsecured fixed rate corporate bonds and \$15,000,000 of unsecured variable corporate bonds. The associated transaction costs of the bond buy back; together with the write-off of transaction costs capitalised at inception amount to \$332,000. These transaction costs were recognised in the profit and loss during the current period respectively. The losses for these transactions total \$600,000.

In the prior year the Group purchased \$10,000,000 of unsecured fixed rate corporate bonds and \$15,000,000 of unsecured variable corporate bonds. The associated transaction costs of the bond buy back; together with the write-off of transaction costs capitalised at inception amount to \$409,000. These transaction costs were recognised in the profit and loss during the prior period respectively. The losses for these transactions total \$850,000.

#### **Restructure costs**

Restructure costs recognised in the current and prior periods primarily relate to redundancy and other restructuring activities undertaken by the Group.

In the prior year 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.

#### **Hedging ineffectiveness due to extinguishment of interest rate swaps**

In the current year, as a result of the extinguishment of the remaining interest rate swaps and buy back of fixed interest rate bonds, the Group's debt is comprised of working capital (short term debt). This has resulted in \$497,000 of hedge ineffectiveness recognised in the profit and loss.

#### **Impairment of brand names within the Australian business segment**

In the prior year the Group recognised an \$6,875,000 impairment of brand names related to the Revitanail brand. This is as a result of range rationalisation.

Refer to Note 16 for further information.

#### **Impairment of New Zealand business segment**

During the year, the Group wrote-off net deferred tax assets of \$219,000 relating to the Group's New Zealand business segment.

In the prior year the Group recognised a \$2,690,000 impairment of Goodwill and \$143,000 write-off of a deferred tax assets, relating to the Group's New Zealand cash generating unit (CGU). This was as a direct result of a reduction in EBIT forecasts and FY18 Budgeted results for the CGU.

#### **Gain recognised on divestments of Impulse Merchandising business in Singapore**

In the prior year MCP Singapore recognised a \$192,000 capital gain associated with the divestments of its IMD business.

#### **Impairment of goodwill related to Home Appliances business**

During the current year, a goodwill impairment charge of \$6,444,000 was recognised against the Home Appliances cash generating unit. This was to reduce the value of the Home Appliances business to reflect the ascribed purchase price prior to its pending divestment. Refer to Note 14 for further information.

During the prior year the Group recognised a \$7,000,000 impairment of Goodwill, of relating to the Group's Australian cash generating unit of Home Appliances. This was as a direct result of a reduction in EBIT forecasts.

Refer to Note 16 for further information.

#### **Loss recognised on divestment of Home Appliances business inclusive of Foreign Exchange options ineffectiveness**

During the current year the Group completed the divestment of its Home Appliances business to Glen Dimplex Australia Pty Limited. As a result of the finalisation of the sale, the Group recorded a loss on sale before tax of \$311,000. Further, as a result of the divestment of Home Appliances business, the hedging against USD purchases was considered to be ineffective, causing a \$159,000 loss recorded in the profit and loss for the build up of the related Hedge Reserve (Foreign Exchange options).

Refer to Note 14 for further information.

#### **Redundancy costs related to Home Appliances business**

During the current year the Group recognised redundancy costs of \$792,000 due to the divestment of the Home Appliances business.

#### **Impairment of brand names within the Home Appliances business**

In the prior year the Group recognised an \$5,000,000 impairment of brand names relates to the Group's Australian cash generating unit of Home Appliances. This is as a result of reduced performance of the Home Appliances business.

Refer to Note 16 for further information.

## Notes to and Forming Part of the Financial Statements

### 6. Dividends

Details of dividends declared during the year ended 30 June 2018 are as follows:

	2018 \$'000	2017 \$'000
Final 30 June 2017 dividend of 2.0 cents per fully paid share (2016: 2.0 cents per fully paid share) fully franked @ 30%	2,079	2,066
Interim 2018 dividend of 6.0 cents per fully paid share (2017: 6.0 cents per fully paid share) fully franked @ 30%	6,247	6,209
<b>Total dividends</b>	<b>8,326</b>	8,275

#### Dividends not recognised at year end

In addition to the above dividends, since the year end the Directors have declared a fully franked final dividend of 2.5 cents per fully paid share (2017: 2.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 19 October 2018 but not recognised as a liability at year end is:

2,619	2,079
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#### Franked Dividends

Franked dividends paid after 30 June 2018 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 2018.

Franking credits available for subsequent financial years based on a tax rate of 30%	22,708	21,666
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The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for receipt of the current tax assets.

#### Dividend reinvestment plan

The Company's dividend reinvestment plan continues to operate without a discount and will apply to the upcoming final dividend. Shareholders on the register at the record date of 2 October 2018 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 3 October 2018. Shareholders that have previously elected to participate in the dividend reinvestment plan will continue to do so on the same basis unless a formal election to vary or cease participation is provided by 3 October 2018.

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

### 7. Segment Information

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

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

#### Segment revenues

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

Revenues from continuing operations of approximately \$34,817,000 (2017: \$34,773,000) and \$31,127,000 (2017: \$31,526,000) were derived from two external customers. These revenues were attributable to the Australian segment.

## Notes to and Forming Part of the Financial Statements

### 7. Segment Information (continued)

#### 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	Less Discontinued Operations <sup>1</sup> \$000	Continuing Operations \$000
<b>2018</b>							
Sales to external customers	239,465	8,371	7,947	—	255,783	45,353	210,430
Inter-segment sales	2,065	—	1,688	(3,753)	—	—	—
<b>Total sales revenue</b>	<b>241,530</b>	<b>8,371</b>	<b>9,635</b>	<b>(3,753)</b>	<b>255,783</b>	<b>45,353</b>	<b>210,430</b>
Other revenue/income (excluding interest)	592	—	—	—	592	—	592
<b>Total segment revenue and other income (excluding interest)</b>	<b>242,122</b>	<b>8,371</b>	<b>9,635</b>	<b>(3,753)</b>	<b>256,375</b>	<b>45,353</b>	<b>211,022</b>
EBITDA before significant items	23,983	40	1,963	—	25,986	2,223	23,763
Depreciation and amortisation expense	(2,571)	(206)	(85)	—	(2,862)	(654)	(2,208)
<b>Segment result before significant items</b>	<b>21,412</b>	<b>(166)</b>	<b>1,878</b>	<b>—</b>	<b>23,124</b>	<b>1,569</b>	<b>21,555</b>
Significant items before tax (excluding borrowing related costs, refer Note 5)	(8,054)	(11)	—	—	(8,065)	(7,547)	(518)
<b>Segment result including significant items before tax</b>	<b>13,358</b>	<b>(177)</b>	<b>1,878</b>	<b>—</b>	<b>15,059</b>	<b>(5,978)</b>	<b>21,037</b>
Net borrowing costs					(4,113)	(159)	(3,954)
Profit/(Loss) before income tax					10,946	(6,137)	17,083
Income tax expense					(5,770)	(46)	(5,724)
<b>Profit/(Loss) after income tax</b>					<b>5,176</b>	<b>(6,183)</b>	<b>11,359</b>
<b>Segment assets</b>	<b>148,489</b>	<b>4,148</b>	<b>25,937</b>	<b>(19,917)</b>	<b>158,657</b>		
<b>Non-current assets (other than financial assets and deferred tax)</b>	<b>75,305</b>	<b>332</b>	<b>1,531</b>	<b>—</b>	<b>77,168</b>		
<b>Additions to non-current assets (other than financial assets and deferred tax)</b>	<b>1,656</b>	<b>109</b>	<b>50</b>	<b>—</b>	<b>1,815</b>		

1) Refer to discontinued operations – Note 14.

## Notes to and Forming Part of the Financial Statements

## 7. Segment Information (continued)

	Australia \$000	New Zealand \$000	Rest of the World \$000	Intersegment eliminations \$000	Consolidated \$000	Less Discontinued Operations <sup>1</sup> \$000	Continuing Operations \$000
<b>2017</b>							
Sales to external customers	262,095	9,218	8,145	—	279,458	68,301	211,157
Inter-segment sales	1,844	—	2,827	(4,671)	—	—	—
<b>Total sales revenue</b>	<b>263,939</b>	<b>9,218</b>	<b>10,972</b>	<b>(4,671)</b>	<b>279,458</b>	<b>68,301</b>	<b>211,157</b>
Other revenue/income (excluding interest)	76	—	529	—	605	4	601
<b>Total segment revenue and other income (excluding interest)</b>	<b>264,015</b>	<b>9,218</b>	<b>11,501</b>	<b>(4,671)</b>	<b>280,063</b>	<b>68,305</b>	<b>211,758</b>
EBITDA before significant items	18,818	(438)	2,440	6,456	27,276	4,315	22,961
Depreciation and amortisation expense	(2,994)	(178)	(79)	—	(3,251)	(984)	(2,267)
<b>Segment result before significant items</b>	<b>15,824</b>	<b>(616)</b>	<b>2,361</b>	<b>6,456</b>	<b>24,025</b>	<b>3,331</b>	<b>20,694</b>
Significant items before tax (excluding borrowing related costs, refer Note 5)	(19,974)	(2,700)	(295)	—	(22,969)	(12,040)	(10,929)
<b>Segment result including significant items before tax</b>	<b>(4,150)</b>	<b>(3,316)</b>	<b>2,066</b>	<b>6,456</b>	<b>1,056</b>	<b>(8,709)</b>	<b>9,765</b>
Net borrowing costs					(5,733)	—	(5,733)
<b>Profit/(Loss) before income tax</b>					<b>(4,677)</b>	<b>(8,709)</b>	<b>4,032</b>
Income tax expense					(4,396)	23	(4,419)
<b>(Loss) after income tax</b>					<b>(9,073)</b>	<b>(8,686)</b>	<b>(387)</b>
<b>Segment assets</b>	<b>199,253</b>	<b>4,073</b>	<b>24,774</b>	<b>(19,095)</b>	<b>209,005</b>		
<b>Non-current assets (other than financial assets and deferred tax)</b>	<b>95,979</b>	<b>444</b>	<b>1,499</b>	<b>—</b>	<b>97,922</b>		
<b>Additions to non-current assets (other than financial assets and deferred tax)</b>	<b>1,751</b>	<b>92</b>	<b>54</b>	<b>—</b>	<b>1,897</b>		

Restated for discontinued operations for the year ended 30 June 2017.

1) Refer to discontinued operations – Note 14

## 8. Income tax

## a) Income tax expense

	2018 \$'000	2017 \$'000
Current tax	5,823	3,597
Deferred tax (Note 8 (a)(i))	(554)	377
Under provision in prior years	501	422
	<b>5,770</b>	<b>4,396</b>
i) Deferred income tax (credit)/expense included in income tax expense comprises:		
(Increase)/Decrease in deferred tax assets (Note 17)	(324)	1,446
(Decrease) in deferred tax liabilities (Note 23)	(230)	(1,069)
	<b>(554)</b>	<b>377</b>

## Notes to and Forming Part of the Financial Statements

### 8. Income tax (continued)

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

	2018 \$'000	2017 \$'000
Total operating profit/(loss) before tax	10,946	(4,677)
Prima facie income tax expense/(benefit) at 30%	3,284	(1,403)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of intangible assets	1,933	5,411
Capital loss on divestment of Home Appliances business	(64)	—
Impairment of tax assets	219	244
Non-assessable gain on the disposal of the Impulse Merchandising business in Singapore	—	(58)
Tax rate differences in overseas entities	(316)	(255)
Share-based payments expense	85	96
Under provision in prior years	501	422
Other	128	(61)
<b>Income tax expense</b>	<b>5,770</b>	<b>4,396</b>
Income tax expense is attributable to:		
Profit from continuing operations	5,724	4,419
Profit/(Loss) from discontinued operation	46	(23)
<b>Income tax expense</b>	<b>5,770</b>	<b>4,396</b>

#### c) Amounts recognised directly in equity

	2018 \$'000	2017 \$'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity:		
Deferred tax assets (Note 17)	(2)	(1)

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

Cash flow hedges (Notes 17, 23)	(1,408)	(380)
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### 9. Key management personnel

	2018 \$'000	2017 \$'000
<b>Key management personnel compensation</b>		
Short-term employee benefits	2,501,362	3,241,565
Post-employment benefits	110,014	153,315
Long-term benefits	22,286	18,628
Share-based payments	400,421	233,028
	<b>3,034,083</b>	<b>3,646,536</b>

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

#### Loans to key management personnel

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

#### Other transactions with key management personnel

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

There were no transactions between the consolidated entity and the Directors of McPherson's Limited or with any other key management personnel of the Group, including their personally-related entities, during the current or previous financial year other than those disclosed above, noted in Note 32, relating to remuneration.

## Notes to and Forming Part of the Financial Statements

### 10. Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash on hand	8	13
Cash at bank and on deposit (at call)	8,599	6,571
	<b>8,607</b>	6,584

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	8,607	6,584
<b>Cash balance per statement of cash flows</b>	<b>8,607</b>	6,584

### 11. Trade and other receivables

	2018 \$'000	2017 \$'000
Trade receivables	27,113	36,601
Provision for impairment	(121)	(166)
	<b>26,992</b>	36,435
Other receivables/prepayments	2,938	3,786
	<b>29,930</b>	40,221

Movements in the provision for impairment of trade receivables are as follows:

Balance at 1 July	(166)	(214)
Reversal of provisions for impairment recognised during the year	1	(4)
Unused amount received	45	31
Written-off during the year as uncollectible	—	20
Foreign exchange	(1)	1
	<b>(121)</b>	(166)

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

#### Credit risk

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

	2018 \$'000	2017 \$'000
Neither past due nor impaired	18,890	20,291
Past due, but not impaired:		
• less than 30 days	7,775	13,912
• 30 to 59 days	54	1,327
• 60 to 89 days	253	793
• 90 to 119 days	2	27
• 120 days or more	139	251
Gross carrying amount	27,113	36,601
Provision for impairment	(121)	(166)
<b>Net carrying amount</b>	<b>26,992</b>	36,435

#### Credit risk concentration

Two external customers represent \$11,472,000 (2017: \$10,393,000) and \$4,819,000 (2017: \$6,616,000) respectively of the closing receivables balance. These debtor balances are in relation to the Australian business.

## Notes to and Forming Part of the Financial Statements

### 12. Inventories

	2018 \$'000	2017 \$'000
Raw materials	2,547	2,823
Finished goods	33,335	48,328
Stock in transit	5,696	12,512
	<b>41,578</b>	63,663
Provision for inventory obsolescence	<b>(3,140)</b>	(4,298)
	<b>38,438</b>	59,365

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

Inventory recognised as cost of goods sold during the year ended 30 June 2018 amounted to \$140,950,000 (2017: \$160,035,000).

### 13. Derivative financial instruments

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments. The Group has the following assets and liabilities related to its derivatives:

	2018 \$'000	2017 \$'000
Forward foreign exchange contracts – cash flow hedges	1,557	–
Foreign currency options – cash flow hedges	2	–
<b>Total current derivative financial instrument assets</b>	<b>1,559</b>	–
Interest rate contracts – cash flow hedges	–	293
Forward foreign exchange contracts – cash flow hedges	–	1,033
Foreign currency options – cash flow hedges	–	710
<b>Total current derivative financial instrument liabilities</b>	–	2,036
<b>Non-current liabilities</b>		
Interest rate contracts – cash flow hedges	–	559

#### a) Instruments used by the Group

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

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

The Group enters into forward foreign exchange contracts to hedge a portion of highly probable forecast purchases denominated in foreign currencies, predominantly in USD. The terms of these commitments are twelve months or less.

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

The Group has also entered into foreign currency option contracts to partially hedge a portion of anticipated United States dollar purchases. At balance date, the outstanding foreign currency option contracts cover the period from July 2018 to June 2019.

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

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

The Group extinguished during the current year its interest rate swaps contracts which were held to reduce its exposure to possible increases in interest rates. Refer to Note 2 for further information.

#### b) Credit risk exposure

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

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

#### c) Foreign exchange risk

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

# Notes to and Forming Part of the Financial Statements

## 14. Discontinued Operations

### a) Description

During the current year, following a strategic review, the Group announced the divestment of its Home Appliances business to Glen Dimplex Australia Pty Limited. The net consideration for this transaction was \$29.5m. The business unit is classified as discontinued operation as at 30 June 2018 and has been re-presented to show the discontinued operation separately from continuing operations. The business accounts for a significant proportion of the Australian geographical segment.

During the current year, a goodwill impairment charge of \$6,444,000 was recognised against the Home Appliances cash generating unit. This was to reduce the value of the Home Appliances business to reflect the ascribed purchase price upon its pending divestment.

The completion date for the transaction was 28 February 2018. Further, as a result of the finalisation of the sale, the Group recorded a loss on sale before tax of \$0.5m.

b) Financial performance and cash flow information	2018 \$'000	2017 \$'000
Revenue	45,353	68,301
Expenses	(43,784)	(64,970)
<b>Profit from operating activities before income tax and impairment</b>	<b>1,569</b>	<b>3,331</b>
Income tax (expense)	(495)	(1,048)
Significant items after tax	(6,998)	(10,969)
<b>Loss after income tax of discontinued operation</b>	<b>(5,924)</b>	<b>(8,686)</b>
Loss on sale after income tax (see (c) below)	(259)	—
<b>Loss from discontinued operation</b>	<b>(6,183)</b>	<b>(8,686)</b>
Net cash (outflow)/inflow from operating activities	(4,142)	6,945
Net cash (outflow) investing activities	(975)	(825)
Net cash (outflow) financing activities	—	(4,840)
<b>Net (decrease)/increase in cash from discontinued operations</b>	<b>(5,117)</b>	<b>1,280</b>

### c) Details of the sale of the Home Appliances business

The details of the disposal are set out below:

	\$'000
Cash received	30,253
Transaction costs	(782)
<b>Net consideration</b>	<b>29,471</b>
Carrying amount of net assets sold	(29,782)
<b>Loss on sale before income tax and extinguishment of FX options</b>	<b>(311)</b>
Extinguishment of Foreign Exchange options (Note 25 (a))	(159)
Income tax benefit	211
<b>Loss on sale after income tax (Note 5 (b))</b>	<b>(259)</b>

The carrying amounts of assets and liabilities as at the date of sale (28 February 2018) were:

	28 February 2018 \$'000
Inventories	20,574
Property, plant and equipment	1,267
Intangible assets	12,037
Deferred tax assets	1,003
Other receivables	172
<b>Total assets</b>	<b>35,053</b>
Provisions	3,343
Deferred tax liabilities	1,665
Other payables	263
<b>Total liabilities</b>	<b>5,271</b>
<b>Net assets</b>	<b>29,782</b>

## Notes to and Forming Part of the Financial Statements

<b>15. Property, plant and equipment</b>		
	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Leasehold improvements:</b>		
At cost	<b>284</b>	292
Accumulated depreciation	<b>(240)</b>	(247)
<b>Total leasehold improvements</b>	<b>44</b>	45
<b>Plant and equipment:</b>		
At cost	<b>31,984</b>	33,358
Accumulated depreciation	<b>(28,760)</b>	(28,475)
<b>Total plant and equipment</b>	<b>3,224</b>	4,883
<b>Total property, plant and equipment</b>	<b>3,268</b>	4,928

### a) Reconciliations

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Carrying amount at 1 July 2016</b>	<b>52</b>	<b>5,791</b>	<b>5,843</b>
Additions	—	1,549	1,549
Disposals	—	(19)	(19)
Transfers	—	(10)	(10)
Depreciation expense	(7)	(2,409)	(2,416)
Foreign currency exchange differences	—	(19)	(19)
<b>Carrying amount at 30 June 2017</b>	<b>45</b>	<b>4,883</b>	<b>4,928</b>
Additions	—	1,671	1,671
Disposals	—	(16)	(16)
Transfers on disposal of business (Note 14)	—	(1,267)	(1,267)
Depreciation expense	(8)	(2,032)	(2,040)
Foreign currency exchange differences	7	(15)	(8)
<b>Carrying amount at 30 June 2018</b>	<b>44</b>	<b>3,224</b>	<b>3,268</b>

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

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

<b>16. Intangible assets</b>		
	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Goodwill	<b>15,674</b>	28,002
Brand names	<b>56,827</b>	62,351
Other intangibles	<b>7,975</b>	8,640
Accumulated amortisation	<b>(6,576)</b>	(5,999)
	<b>1,399</b>	2,641
<b>Total intangibles</b>	<b>73,900</b>	92,994

# Notes to and Forming Part of the Financial Statements

## 16. Intangible assets (continued)

### 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	Brand names \$'000	Other Intangibles \$'000	Total \$'000
<b>Carrying amount at 1 July 2016</b>	<b>37,785</b>	<b>74,226</b>	<b>3,128</b>	<b>115,139</b>
Additions	—	—	348	348
Impairment charge	(9,690)	(11,875)	—	(21,565)
Foreign currency exchange differences	(93)	—	—	(93)
Amortisation charge	—	—	(835)	(835)
<b>Carrying amount at 30 June 2017</b>	<b>28,002</b>	<b>62,351</b>	<b>2,641</b>	<b>92,994</b>
Additions	—	—	144	144
Transfers on disposal of business (Note 14)	(5,949)	(5,524)	(564)	(12,037)
Impairment charge (Note 5 (b))	(6,444)	—	—	(6,444)
Amortisation charge	—	—	(822)	(822)
Foreign currency exchange differences	65	—	—	65
<b>Carrying amount at 30 June 2018</b>	<b>15,674</b>	<b>56,827</b>	<b>1,399</b>	<b>73,900</b>

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

### Impairment Testing

#### Goodwill

Goodwill is allocated to the following cash generating units:

	2018 \$'000	2017 \$'000
Australia (excluding Home Appliances)	15,674	15,609
Home Appliances	—	12,393
	<b>15,674</b>	<b>28,002</b>

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

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

	30 June 2018				30 June 2017			
	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate
Australia (ex Home Appliances)	2.0%	2.0%	10.0%	13.7%	2.0%	2.0%	10.0%	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. The budgets reflect the Board's expectation of cash flows, for the Australian (excluding Home Appliances) cash-generating unit, arising from profit optimisation initiatives, new product launches and the inventory rationalisation project. At 30 June 2018, the value-in-use calculation for all cash generating units exceeded the carrying value of their net asset. The surplus amount within the Australia (excluding Home Appliances) calculation is \$95,388,000 (June 2017: \$105,191,000).

### Impairment charge

During the current year, a goodwill impairment charge of \$6,444,000 was recognised against the Home Appliances cash generating unit. This was to reduce the value of the Home Appliances business to reflect the ascribed purchase price upon its pending divestment. Refer to Note 14, Discontinued Operations, for further details.

During the prior 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 EBIT forecast available at the half year. A further \$890,000 impairment of the goodwill in New Zealand was recognised in the second half of the prior financial year as a result of the continued poor performance.

## Notes to and Forming Part of the Financial Statements

### 16. 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 brand name 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 brand names tested using this method, are set out below.

	2018	2017
Estimated growth rates	1.0% – 5.0%	1.0% – 5.0%
Post-tax discount rates	10.0%	10.0% – 10.3%
Pre-tax discount rate equivalents	13.1%	13.1% – 14.1%

At 30 June 2018, the total carrying value of brand names tested using the value-in-use method was \$56,827,000 (2017: \$62,351,000). The value-in-use calculations for these brand names exceeded their carrying values.

#### Impairment charge

During the first half of the prior year an impairment charge of \$6,000,000 was recognised against the Revitanail brand name in the Australian consumer products business. This charge was necessitated by the recent range rationalisation associated with the brand. Based on the continued performance of the brand, a further \$875,000 impairment was recognised against this brand in the second half of the prior financial year. The impairment charges are included within the Australian reportable segment within Note 7 Segment Information.

In addition, during the prior year, an impairment charge of \$5,000,000 was also required against the Home Appliances brand names as a result of the reduced performance of that business. This charge is also included within the Australian reportable segment within Note 7 Segment Information.

#### 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 charge would arise.

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

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

### 17. Deferred tax assets

	2018 \$'000	2017 \$'000
The balance comprises temporary differences attributable to:		
Cash flow hedges	–	770
Employee benefits	1,459	1,655
Depreciation	761	886
Inventory obsolescence	24	13
Transaction costs arising on share issues	14	(3)
Trade receivables impairment	30	44
Claims and returns	77	63
Warranty	–	767
Other provisions and accruals	590	477
<b>Total temporary differences</b>	<b>2,955</b>	<b>4,672</b>
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 23)	<b>(2,755)</b>	<b>(4,568)</b>
<b>Net deferred tax assets</b>	<b>200</b>	<b>104</b>

## Notes to and Forming Part of the Financial Statements

### 17. Deferred tax assets (continued)

<i>Movements</i>	Cash Flow Hedges \$'000	Employee Benefits \$'000	Depreciation \$'000	Inventory Obsolescence \$'000	Transaction Costs Arising on Share Issues \$'000	Other \$'000	Total \$'000
<b>Opening balance at 1 July 2016</b>	1,530	1,954	1,093	603	79	1,335	6,594
Charged to profit or loss (Note 8)	(327)	(233)	(286)	(519)	—	(81)	(1,446)
Charged to equity	(380)	—	—	—	—	—	(380)
Amortisation of transaction costs on share issues	—	—	—	—	(82)	—	(82)
Under/(over) provision in prior years	(52)	(57)	79	(67)	—	82	(15)
Foreign currency exchange differences	(1)	(9)	—	(4)	—	15	1
<b>Closing balance at 30 June 2017</b>	<b>770</b>	<b>1,655</b>	<b>886</b>	<b>13</b>	<b>(3)</b>	<b>1,351</b>	<b>4,672</b>
Charged to profit or loss (Note 8)	—	78	71	10	—	165	324
Charged to equity	(770)	—	—	—	2	—	(768)
Transfer on Disposal of business (Note 14)	—	(200)	—	—	—	(803)	(1,003)
Amortisation of transaction costs on share issues	—	—	—	—	(10)	—	(10)
Under/(over) provision in prior years	—	(73)	(196)	—	25	(27)	(271)
Foreign currency exchange differences	—	(1)	—	1	—	11	11
<b>Closing balance at 30 June 2018</b>	<b>—</b>	<b>1,459</b>	<b>761</b>	<b>24</b>	<b>14</b>	<b>697</b>	<b>2,955</b>
						<b>2018</b>	<b>2017</b>
						<b>\$'000</b>	<b>\$'000</b>
Deferred tax assets to be recovered within 12 months						<b>1,905</b>	3,392
Deferred tax assets to be recovered after more than 12 months						<b>1,050</b>	1,280
						<b>2,955</b>	4,672

### 18. Trade and other payables

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	<b>16,326</b>	24,584
Other payables	<b>11,632</b>	24,056
	<b>27,958</b>	48,640

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

### 19. Borrowings – current

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans – secured	<b>18,000</b>	18,000
Other borrowings	<b>454</b>	406
	<b>18,454</b>	18,406

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

Of the borrowings, \$18,000,000 relates to a secured working capital loan. The Group's facility is denominated in Australian dollars and the facility limit is \$33,500,000. Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

The remaining loan balance relates to another financing facility.

In addition to the above mentioned facility, as from 7 February 2017 the Group has a \$5,000,000 overdraft facility.

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

## Notes to and Forming Part of the Financial Statements

### 20. Provisions – current

	2018 \$'000	2017 \$'000
Employee entitlements	4,555	4,749
Claims, returns and warranty	25	3,000
Restructure	380	–
Employee incentives	1,740	1,945
Other	328	358
	<b>7,028</b>	<b>10,052</b>

#### a) Employee entitlements

Amounts reflect employees' entitlement to take accrued annual leave and long service leave during the next 12 months. Based on past experience, the Group expects that approximately 39% of the current balance will be taken or paid within the next 12 months.

#### b) Claims, returns and warranty

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

#### c) Restructure

During the current year, the Group conducted a restructuring program to continue to align the Group's structure with the current strategy and environment. Since the restructuring was formally announced to the employees prior to the end of the year, a provision had been raised for the restructuring activities to be completed in the next financial year.

#### 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:

	Claims, returns and warranty \$'000	Restructure \$'000	Employee Incentives \$'000	Other \$'000
<b>Carrying amount at 1 July 2017</b>	<b>3,000</b>	<b>–</b>	<b>1,945</b>	<b>358</b>
Additional provisions charged to profit or loss	1,588	1,309	2,269	57
Unused amounts reversed to profit or loss	(419)	–	(297)	(87)
Payments	(1,471)	(929)	(2,058)	–
Foreign currency exchange differences	2	–	–	–
Transfers as part of disposal of business	(2,675)	–	(119)	–
<b>Carrying amount at 30 June 2018</b>	<b>25</b>	<b>380</b>	<b>1,740</b>	<b>328</b>

### 21. Borrowings – non-current

	2018 \$'000	2017 \$'000
<b>Unsecured liabilities</b>		
Bonds	–	25,000
Debt issue Costs	–	(400)
	–	24,600

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

- In March 2018, the Group completed a buy back of \$10,000,000 unsecured variable rate corporate bonds. The buy back consideration was \$10,150,000 for face value of \$10,000,000;
- In April 2018, the Group completed a buy back of \$15,000,000 unsecured fixed rate corporate bonds. The buy back consideration was \$15,450,000 for face value of \$15,000,000; and
- The secured bank loans are recorded within current borrowings in Note 19.

## Notes to and Forming Part of the Financial Statements

### 21. Borrowings – non-current (continued)

On 7 February 2017, the Group refinanced its working capital facilities. The life of the facility is 2 years expiring on 28 February 2019.

On 7 March 2018, the Group extinguished \$15,000,000 fixed interest rate swaps.

The Group's facility is denominated in Australian dollars and the facility limit is \$33,500,000. 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.

In addition to the above mentioned facility, as from 7 February 2017 the Group has a \$5,000,000 overdraft facility.

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

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

In the prior financial year, the Group completed a buy back of \$10,000,000 unsecured variable rate corporate bonds and \$15,000,000 unsecured fixed rate corporate bonds. The buy back consideration was \$25,850,000 for face value of \$25,000,000. Refer to Note 5(b) Significant Items for further details.

#### Security for borrowings

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

The Group facilities are secured by the following:

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

#### Assets pledged as security

	2018 \$'000	2017 \$'000
<b>Fixed charge</b>		
Property, plant and equipment	3,176	4,795
Intangible assets	72,883	92,027
<b>Total non-current assets pledged as security</b>	<b>76,059</b>	<b>96,822</b>
The following current assets are also pledged as security:		
<b>Fixed charge</b>		
Receivables	26,329	37,082
<b>Floating charge</b>		
Cash	7,501	3,617
Inventories	37,664	58,343
Receivables	1,666	1,569
<b>Total current assets pledged as security</b>	<b>73,160</b>	<b>100,611</b>
<b>Total assets pledged as security</b>	<b>149,219</b>	<b>197,433</b>

### 22. Provisions – non-current

	2018 \$'000	2017 \$'000
Employee entitlements	743	943

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

## Notes to and Forming Part of the Financial Statements

### 23. Deferred tax liabilities

The balance comprises temporary differences attributable to:	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Brand names	<b>11,067</b>	12,732
Cash flow hedges	<b>450</b>	–
Prepayments	–	34
Depreciation	<b>17</b>	26
Other	<b>1</b>	(6)
<b>Total temporary differences</b>	<b>11,535</b>	12,786
Set-off of deferred tax asset pursuant to set-off provisions (Note 17)	<b>(2,755)</b>	(4,568)
<b>Net deferred tax liabilities</b>	<b>8,780</b>	8,218
Deferred tax liabilities to be settled within 12 months	<b>441</b>	31
Deferred tax liabilities to be settled after more than 12 months	<b>11,094</b>	12,755
	<b>11,535</b>	12,786

#### Movements

	Brand names \$'000	Cash Flow Hedges \$'000	Other \$'000	Total \$'000
<b>Consolidated</b>				
<b>Closing balance at 30 June 2016</b>	13,791	–	102	13,893
Charged to profit or loss (Note 8)	(1,059)	–	(10)	(1,069)
Under provision in prior years	–	–	(33)	(33)
Foreign exchange	–	–	(5)	(5)
<b>Closing balance at 30 June 2017</b>	12,732	–	54	12,786
Credited) to profit or loss (Note 8)	–	(188)	(42)	(230)
Transfer on Disposal of business (Note 14)	(1,665)	–	–	(1,665)
Charged to Equity	–	638	–	638
Foreign exchange	–	–	6	6
<b>Closing balance at 30 June 2018</b>	<b>11,067</b>	<b>450</b>	<b>18</b>	<b>11,535</b>

### 24. Contributed equity

	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
Issued and paid up capital:		
104,771,194 (June 2017: 103,951,015) ordinary shares – fully paid	<b>155,882</b>	154,790

#### Movements in ordinary share capital

Date	Details	Number of Shares	Price \$	\$'000
1 July 2016	Opening Balance	103,318,229		154,042
	Shares issued – Dividend reinvestment plan for 30 June 2016 final dividend	141,112	1.06	149
	Shares issued – Dividend reinvestment plan for 31 December 2016 interim dividend	491,674	1.23	604
	Transaction costs associated with share issues			(7)
	Tax effect of share issue transaction costs recognised directly in equity			2
<b>30 June 2017 Closing Balance</b>		<b>103,951,015</b>		<b>154,790</b>
	Shares issued – Dividend reinvestment plan for 30 June 2017 final dividend	<b>165,622</b>	<b>1.39</b>	<b>231</b>
	Shares issued – Dividend reinvestment plan for 31 December 2017 interim dividend	<b>654,557</b>	<b>1.32</b>	<b>866</b>
	Transaction costs associated with share issues			(7)
	Tax effect of share issue transaction costs recognised directly in equity			2
<b>30 June 2018 Closing Balance</b>		<b>104,771,194</b>		<b>155,882</b>

# Notes to and Forming Part of the Financial Statements

## 24. Contributed equity (continued)

### Ordinary shares

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

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

### Options and Performance Rights

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

### Capital risk management

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

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

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

	2018 \$'000	2017 \$'000
Total borrowings (Note 19, 21)	18,454	43,006
Less: Cash assets (Note 10)	(8,607)	(6,584)
<b>Net debt</b>	<b>9,847</b>	36,422
<b>Total equity</b>	<b>90,020</b>	88,486
<b>Total capital</b>	<b>99,867</b>	124,908
<b>Gearing ratio</b>	<b>9.9%</b>	29.2%

Under the terms of the borrowing facilities up until 6 February 2017, the Group was required to comply with the following key financial covenants:

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

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 funds must be greater than \$65,000,000.

The Group's facility is denominated in Australian dollars and the facility limit is \$33,500,000. 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.

In addition to the above mentioned facility, as from 7 February 2017 the Group has a \$5,000,000 overdraft facility.

As at 30 June 2018, the Group was compliant with its debt covenants.

## 25. Reserves and accumulated losses

### a) Reserves

	2018 \$'000	2017 \$'000
Hedging reserve – cash flow hedges	1,318	(1,602)
Share-based payments reserve	2,014	1,734
Foreign currency translation reserve	1,496	1,104
	<b>4,828</b>	1,236

# Notes to and Forming Part of the Financial Statements

## 25. Reserves and accumulated losses (continued)

### a) Reserves (continued)

	2018 \$'000	2017 \$'000
<b>Hedging reserve – cash flow hedges:</b>		
Balance 1 July	(1,602)	(2,502)
Revaluation – gross	1,723	(1,745)
Deferred tax (Note 17, 23)	(515)	523
Transfer to cost of sales – gross	2,287	3,561
Deferred tax (Note 17, 23)	(686)	(1,068)
Transfer to finance costs – gross	688	(536)
Deferred tax (Note 17, 23)	(207)	165
Reclassification to profit or loss - gross	(529)	–
Tax expense	159	–
<b>Balance 30 June</b>	<b>1,318</b>	<b>(1,602)</b>
<b>Share-based payments reserve:</b>		
Balance 1 July	1,734	1,412
Share-based payments (Note 26 (a))	260	322
Employee share scheme (Note 26 (a))	20	–
<b>Balance 30 June</b>	<b>2,014</b>	<b>1,734</b>
<b>Foreign currency translation reserve:</b>		
Balance 1 July	1,104	1,725
Currency translation differences arising during the year	392	(621)
<b>Balance 30 June</b>	<b>1,496</b>	<b>1,104</b>

### b) Accumulated losses

	2018 \$'000	2017 \$'000
Balance 1 July	(67,540)	(50,192)
Profit/(Loss) after tax	5,176	(9,073)
Dividends provided for or paid	(8,326)	(8,275)
<b>Balance 30 June</b>	<b>(70,690)</b>	<b>(67,540)</b>

### c) Nature and purpose of reserves

#### **Hedging reserve – cash flow hedges**

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

#### **Share-based payments reserve**

The share-based payments reserve is used to recognise the fair value of Performance Rights issued at grant date but not exercised and shares estimated to be issued under the employee share scheme.

#### **Foreign currency translation reserve**

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

## 26. Share-based payments

### a) Employee Performance Rights Plan

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

# Notes to and Forming Part of the Financial Statements

## 26. Share-based payments (continued)

### a) Employee Performance Rights Plan (continued)

Approval for the issue of Performance Rights granted to the Managing Director was obtained under ASX Listing Rule 10.14 at the Company's 2016 Annual General Meeting.

The Commencement Rights granted to the Managing Director will vest providing Mr. McAllister continues to be the Managing Director of the Company until 1 November 2019, and may be exercised at any time after 1 November 2019 until 1 November 2024 providing Mr. McAllister is the Managing Director at that time.

The number of the Managing Director's High Level Performance Rights and the Performance Rights previously issued to other KMP that will vest will be determined proportionately on a straight line basis based on the compound annual growth rate (CAGR) of the Group's earnings per share excluding significant items ("Underlying EPS") over a three year period. The base year EPS to be used in determining whether the vesting conditions have been satisfied is the reported underlying EPS for the 30 June financial year immediately prior to when the rights were issued. The underlying EPS is subject to further adjustment at the discretion of the Nomination and Remuneration Committee when considered appropriate.

The rights granted in 2016 and 2017 will vest proportionately from no rights vesting if the Group's EPS CAGR is 3.0% or less to 100% of rights vesting if the Group's EPS CAGR is 8.0% or higher. The rights granted in 2018 will vest proportionately from no rights vesting if the Group's EPS CAGR is 5.0% or less to 100% of rights vesting if the Group's EPS CAGR is 10.0% or higher.

In order for the Managing Director's Exceptional Level Performance Rights to vest, the Company must achieve a Total Shareholder Return (TSR) over a four year performance period equal to at least 15% annual return on a compounded basis. Where this 15% threshold is achieved, 25% of Exceptional Level rights will vest. Vesting will be calculated on a straight line basis with 100% of Exceptional Level rights vesting where the TSR achieved over the performance period is equal to or exceeds 25% annual return on a compounded basis.

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

	2018		2017	
	Average fair value at grant date	Number of rights	Average fair value at grant date	Number of rights
<b>As at 1 July</b>	<b>\$0.76</b>	<b>2,571,000</b>	\$0.70	1,459,000
Granted during the year	<b>\$0.94</b>	<b>965,000</b>	\$0.65	1,416,000
Lapsed during the year	—	<b>(281,000)</b>	—	(304,000)
<b>As at 30 June</b>	<b>\$0.88</b>	<b>3,255,000</b>	\$0.76	2,571,000
Vested and exercisable	—	—	—	—

The fair value of the Performance Rights issued to Mr. McAllister were valued as follows:

Commencement & High Level Performance Rights – have been independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the commencement date less the present value of expected dividends forgone prior to vesting.

Exceptional Level Performance (ELP) Rights – have been independently valued at grant date using the assumptions underlying the Black-Scholes methodology to produce a simulation model which allows for the incorporation of the Total Shareholder Return (TSR) hurdle that must be met before these rights vest. Consequently, in addition to being sensitive to the dividend yield, the ELP rights are also sensitive to volatility and the initial TSR, with the risk free rate as a further valuation input.

The fair value of all other Performance Rights have been independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the grant date less the present value of expected dividends forgone prior to vesting.

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

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

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

Grant date	Vesting date	Number of rights	
		30 June 2018	30 June 2017
24 November 2014	18 September 2017	—	281,000
27 October 2015	18 September 2018	<b>874,000</b>	874,000
22 September 2016	25 September 2019	<b>245,000</b>	245,000
21 November 2016	25 September 2019	<b>263,000</b>	263,000
21 November 2016	25 September 2019	<b>318,000</b>	318,000
21 November 2016	25 September 2020	<b>590,000</b>	590,000
21 September 2017	22 September 2020	<b>294,000</b>	—
21 September 2017	22 September 2020	<b>235,000</b>	—
21 September 2017	22 September 2021	<b>436,000</b>	—
<b>Total</b>		<b>3,255,000</b>	2,571,000

## Notes to and Forming Part of the Financial Statements

### 26. Share-based payments (continued)

#### b) Employee share scheme

During the year, a scheme under which shares may be issued by the Company to employees for no cash consideration was approved by the Board of Directors. All Australian resident permanent employees (excluding Executive Directors, other key management personnel of the Group and the Group Company secretary) who have been continuously employed by the Group for a period of at least one year are eligible to participate in the scheme. Employees may elect not to participate in the scheme.

Under the scheme, eligible employees may be granted up to \$1,000 worth of fully paid ordinary shares in the Group annually for no cash consideration. The shares will vest on 31 July 2019 provided the employee remains employed by the Group. The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the week up but excluding the date of issue (31 July 2019).

Offers under the scheme are at the discretion of the Group.

Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment by the Group. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

	2018	2017
Number of shares estimated to be issued under the plan to participating employees	140,176	—

The above estimate is based on the assumption that each participant is eligible to shares worth \$1,000 based on market price on 30 June 2018 of \$1.705. The shares were granted on 31 May 2018 when the market price was \$1.575.

#### c) Expenses arising from share-based payment transactions

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

	2018 \$'000	2017 \$'000
Performance Rights issued under the employee Performance Rights plan	260	322
Shares estimated to be issued under employee share scheme	20	—
	<b>280</b>	<b>322</b>

### 27. Contractual commitments for expenditure

#### a) Capital commitments

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

	2018 \$'000	2017 \$'000
Not later than one year	494	453

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

#### b) Operating leases

Aggregate amount of non-cancellable operating leases contracted for at balance date, but not provided for in the accounts, due:

	2018 \$'000	2017 \$'000
Not later than one year	5,085	5,956
Later than one year but not later than five years	12,278	14,844
Later than five years	—	—
	<b>17,363</b>	<b>20,800</b>

### 28. Contingent liabilities

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

## Notes to and Forming Part of the Financial Statements

### 29. Remuneration of Auditors

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:

	2018 \$'000	2017 \$'000
<b>a) PricewaterhouseCoopers Australia</b>		
<i>i) Audit and other assurance services</i>		
Audit and review of financial statements	409,300	376,000
Total remuneration for audit and other assurance services	409,300	376,000
<i>ii) Other services</i>		
Information and communications technology (ICT) review	85,000	—
AASB 9 advisory	—	10,500
Tax advice relating to employee Performance Rights plan	—	3,400
Due diligence review	—	76,795
Total remuneration for other services	85,000	90,695
Total remuneration of PricewaterhouseCoopers Australia	494,300	466,695
<b>b) Network firms of PricewaterhouseCoopers Australia</b>		
<i>i) Audit and other assurance services</i>		
Audit and review of financial statements	21,563	—
Total remuneration for audit and other assurance services	21,563	—
Total remuneration of network firms of PricewaterhouseCoopers Australia	515,863	466,695
<b>c) Non PricewaterhouseCoopers audit firms</b>		
<i>i) Audit and other assurance services</i>		
Audit and review of financial statements	31,484	31,413
Total remuneration of non-PricewaterhouseCoopers audit firms	31,484	31,413
<b>Total auditor's remuneration</b>	<b>547,347</b>	<b>498,108</b>

### 30. Earnings per share

	2018 Cents	2017 Cents
Basic earnings/(loss) per share	5.0	(8.8)
Diluted earnings/(loss) per share	5.0	(8.8)
Basic earnings per share excluding significant items	13.5	13.2
Basic earnings/(loss) per share from continuing operations	10.9	(0.4)
Diluted earnings/(loss) per share from continuing operations	10.9	(0.4)
Basic earnings per share from continuing operations excluding significant items	12.4	11.0
<b>Reconciliation of earnings/(loss) used in calculating earnings per share</b>		
	2018 \$'000	2017 \$'000
<i>Basic and diluted earnings/(loss) per share</i>		
Profit for the period (excluding significant items)	14,018	13,667
Significant items, net of tax (Note 5 (b))	(8,842)	(22,740)
<b>Profit/(Loss) for the period</b>	<b>5,176</b>	<b>(9,073)</b>
<i>Basic and diluted earnings/(loss) per share</i>		
Profit for the period from continuing operations (excluding significant items)	12,944	11,384
Significant items from continuing operations, net of tax (Note 5 (b))	(1,585)	(11,771)
<b>Profit/(Loss) for the period from continuing operations</b>	<b>11,359</b>	<b>(387)</b>

# Notes to and Forming Part of the Financial Statements

## 30. Earnings per share (continued)

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

	2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	104,245,147	103,542,054
Adjustments for calculation of diluted earnings per share:		
Commencement rights granted to the Managing Director	188,693	—
Shares estimated to be issued under employee share scheme are dilutive and therefore are included in the calculation of diluted earnings per share	799	—
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	104,434,639	103,542,054

### Information concerning the classification of securities

#### Performance Rights

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

Except for the Commencement rights granted to the Managing Director, the remaining outstanding Performance Rights are not included in the calculation of diluted earnings per share because they are anti-dilutive for the years ended 30 June 2018 and 2017. These Performance Rights could potentially dilute basic earnings per share in the future.

#### Employee share scheme

The shares estimated to be issued under employee share scheme are dilutive and therefore are included in the calculation of diluted earnings per share for the year ended 30 June 2018.

## 31. Particulars in relation to controlled entities

	Country of Incorporation
McPherson's Limited	Australia
<b>Controlled entities of McPherson's Limited</b>	
Domenica Pty Ltd <sup>1</sup>	Australia
McPherson's Consumer Products (NZ) Limited	New Zealand
McPherson's Consumer Products Pty Ltd <sup>1</sup>	Australia
A.C.N. 137 363 038 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
A.C.N. 127 192 223 Pty Ltd	Australia
McPherson's Consumer Products Pte Ltd	Singapore
Multix Pty Ltd <sup>1</sup>	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
McPherson's (Shanghai) Co. Ltd. <sup>2</sup>	China

1) These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. For further information refer to Note 33.

2) On 23 November 2016, the McPherson's Group established a new entity, McPherson's (Shanghai) Co. Ltd.

All investments represent 100% ownership interest unless otherwise stated.

# Notes to and Forming Part of the Financial Statements

## 32. Related parties

### Directors

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

### Controlled entities

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

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

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

### Transactions with other related parties

There were no transactions with other related parties during the year.

### Terms and conditions

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

## 33. 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
- A.C.N. 137 363 038 Pty Ltd
- Electrical Distributors Australia Pty Ltd
- Electrical Distributors Repairs Servicing Pty Ltd
- Integrated Appliance Group Pty Ltd
- A.C.N. 127 192 223 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 ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investment Commission.

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

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

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2018 of the Closed Group.

	2018 \$'000	2017 \$'000
<b>Income statement</b>		
Revenue	241,529	263,939
Other income	2,190	4,781
Expenses	(230,722)	(262,418)
Finance costs	(2,695)	(4,922)
<b>Profit before income tax</b>	<b>10,302</b>	1,380
Income tax expense	(5,747)	(4,830)
<b>Profit for the year</b>	<b>4,555</b>	(3,450)

# Notes to and Forming Part of the Financial Statements

## 33. Deed of Cross Guarantee (continued)

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

	2018 \$'000	2017 \$'000
<b>Summary of movements in consolidated retained profits</b>		
Accumulated losses at beginning of the financial year	(74,495)	(62,770)
Profit after income tax for the year	4,555	(3,450)
Dividends provided for or paid	(8,326)	(8,275)
Accumulated losses at the end of the financial year	(78,266)	(74,495)

### b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2018 of the Closed Group.

	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Cash and cash equivalents	6,500	2,039
Trade and other receivables	26,429	39,682
Inventories	35,867	56,865
Derivative financial instruments	1,501	—
<b>Total current assets</b>	<b>70,297</b>	<b>98,586</b>
<b>Non-current assets</b>		
Other financial assets	20,776	20,776
Property, plant and equipment	2,805	4,321
Intangible assets	73,900	92,994
<b>Total non-current assets</b>	<b>97,481</b>	<b>118,091</b>
<b>Total assets</b>	<b>167,778</b>	<b>216,677</b>
<b>Current liabilities</b>		
Trade and other payables	35,190	55,777
Borrowings	18,454	18,407
Derivative financial instruments	—	2,003
Provisions	6,385	9,428
Current tax liabilities	2,563	2,273
<b>Total current liabilities</b>	<b>62,592</b>	<b>87,888</b>
<b>Non-current liabilities</b>		
Payables	14,147	13,247
Borrowings	—	24,600
Derivative financial instruments	—	559
Provisions	616	813
Deferred tax liabilities	9,533	9,119
<b>Total non-current liabilities</b>	<b>24,296</b>	<b>48,338</b>
<b>Total liabilities</b>	<b>86,888</b>	<b>136,226</b>
<b>Net assets</b>	<b>80,890</b>	<b>80,451</b>
<b>Equity</b>		
Contributed equity	155,882	154,790
Reserves	3,274	156
Accumulated losses	(78,266)	(74,495)
<b>Total equity</b>	<b>80,890</b>	<b>80,451</b>

# Notes to and Forming Part of the Financial Statements

## 34. Notes to the statement of cash flows

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

	2018 \$'000	2017 \$'000
<b>Profit/(Loss) after income tax</b>	<b>5,176</b>	(9,073)
Impairment of brand names	—	11,875
Impairment of goodwill	<b>6,444</b>	7,000
Impairment of business segments	—	2,690
Loss on divestment	<b>259</b>	—
Tax asset write-off New Zealand and UK	<b>303</b>	244
Depreciation	<b>2,040</b>	2,416
Amortisation of other intangibles	<b>822</b>	835
Accelerated transaction cost at inception on bonds buy back	<b>240</b>	327
Loss/(Gain) on disposal of property, plant and equipment	<b>5</b>	(5)
Share-based payments expense	<b>280</b>	322
Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets:		
(Decrease) in payables	<b>(19,278)</b>	(1,181)
Increase in other provisions	<b>494</b>	1,645
(Decrease) in employee entitlements	<b>(394)</b>	(905)
Increase in net tax liabilities	<b>93</b>	3,443
Decrease in receivables	<b>9,945</b>	4,374
Decrease in inventories	<b>463</b>	199
<b>Net cash inflows from operating activities</b>	<b>6,892</b>	24,206

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

	2018 \$'000	2017 \$'000
Shares issued under Dividend Reinvestment Plan (Note 24)	<b>1,097</b>	753

### c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2018 \$'000	2017 \$'000
Cash and cash equivalents	<b>8,607</b>	6,584
Borrowings – repayable within one year (including overdraft)	<b>(18,454)</b>	(18,406)
Borrowings – repayable after one year	—	(24,600)
<b>Net debt</b>	<b>(9,847)</b>	(36,422)
Cash and cash equivalents	<b>8,607</b>	6,584
Gross debt – fixed interest rates	<b>(454)</b>	(15,006)
Gross debt – variable interest rates	<b>(18,000)</b>	(28,000)
<b>Net debt</b>	<b>(9,847)</b>	(36,422)

	Liabilities from financing activities			Total \$'000
	Cash and cash equivalents \$'000	Borrow. due within 1 year \$'000	Borrow. due after 1 year \$'000	
<b>Net debt as at 1 July 2017</b>	6,584	(18,406)	(24,600)	(36,422)
Cash flows	1,873	(48)	25,600	27,425
Foreign exchange adjustment	150	—	—	150
Other non-cash movements	—	—	(400)	(400)
Costs associated with buy back of bonds (Note 5 (b))	—	—	(600)	(600)
<b>Net debt as at 30 June 2018</b>	<b>8,607</b>	<b>(18,454)</b>	—	<b>(9,847)</b>

## Notes to and Forming Part of the Financial Statements

### 35. Events occurring after balance date

Effective 24 July 2018 Ms. Alison Mew was appointed an independent non-executive Director of the Group.

On 2 July 2018 the Group requested a reduction of its borrowing facility limit by \$1.6m.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

### 36. Parent entity financial information

#### a) Summary financial information

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

	2018 \$'000	2017 \$'000
<b>Balance Sheet</b>		
Current assets	3,426	2,414
Total assets	190,386	187,556
Current liabilities	117,867	97,260
Total liabilities	131,110	134,520
<b>Shareholders' equity</b>		
Issued capital	155,882	154,790
Reserves – cash flow hedges	1,261	(1,577)
– share-based payments	2,013	1,734
Retained earnings – 2015 reserve	–	1,204
Accumulated (losses) – 2016 reserve	(104,793)	(104,793)
Retained earnings – 2017/2018 reserve	4,913	1,678
	<b>59,276</b>	53,036
<b>Profit for the period</b>	<b>10,356</b>	1,678
<b>Total comprehensive income</b>	<b>13,195</b>	2,470

#### 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 33 may give rise to liabilities in the parent entity if the subsidiaries do not meet their obligations under the terms of the overdrafts, loans, leases, or other liabilities subject to the guarantee.

## Shareholder Information

The shareholder information set out below was applicable as at 31 August 2018.

### Share Capital

As at 31 August 2018 the ordinary share capital in the Company was held by the following number of shareholders:

Range	Total holders
1 - 1,000	1,452
1,001 - 5,000	1,329
5,001 - 10,000	634
10,001 - 100,000	954
100,001 and over	87
<b>Total</b>	<b>4,456</b>
Holding less than a marketable parcel	592

### Voting Rights

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

### 20 Largest Shareholders as at 31 August 2018

	No. of shares	%
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	18,706,064	17.85
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	15,279,109	14.58
3. CITICORP NOMINEES PTY LIMITED	7,462,715	7.12
4. B & R JAMES INVESTMENTS PTY LIMITED <JAMES SUPERANNUATION A/C>	2,063,269	1.97
5. UBS NOMINEES PTY LTD	1,946,342	1.86
6. NATIONAL NOMINEES LIMITED	1,227,255	1.17
7. P & M MAGUIRE SUPER PTY LTD <P & M MAGUIRE S/F A/C>	1,203,000	1.15
8. MR PAUL JOHN MAGUIRE	1,000,000	0.95
9. MR DAVID MADDEN	925,000	0.88
10. BNP PARIBAS NOMS PTY LTD <DRP>	854,005	0.82
11. NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	792,608	0.76
12. MR KENNETH JOSEPH HALL <HALL PARK A/C>	710,451	0.68
13. MR JOHN GASSNER + MR NATHAN ROTHCHILD	707,501	0.68
14. EGEA PTY LTD	570,239	0.54
15. AUST EXECUTOR TRUSTEES LTD <FLANNERY FOUNDATION>	565,192	0.54
16. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	477,502	0.46
17. MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	455,166	0.43
18. GATFIELD PTY LTD <ROWELL S/F A/C>	448,111	0.43
19. STIRLING SUPERANNUATION PTY LTD	440,000	0.42
20. FULTON SECURITIES PTY LTD <STEPHEN FULTON SUPER A/C>	397,000	0.38
	<b>56,230,529</b>	<b>53.67</b>
	<b>104,771,194</b>	<b>100.00</b>

### Substantial Shareholders

The names and shareholdings of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 as at 31 August 2018 are as follows:

	No. of shares held	% of Total Issued shares
Investors Mutual Limited	10,561,698	10.08%
Microequities Asset Management Pty Ltd	7,465,334	7.18%
Dimensional Fund Advisors Group	5,206,423	5.01%

### Unquoted Equity Securities

The number of Unquoted Equity Securities on issue as at 31 August 2018 is 3,113,000 performance rights (Total holders: 10).

### McPherson's Listing

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

# Corporate Directory

## **McPherson's Limited**

ACN: 004 068 419

ASX CODE: MCP

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

105 Vanessa Street  
Kingsgrove NSW 2208

Telephone: (02) 9370 8000

Facsimile: (02) 9370 8091

Email: [enquiries@mcpher.com.au](mailto:enquiries@mcpher.com.au)

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

## **Auditors**

### **PricewaterhouseCoopers**

One International Towers Sydney Watermans Quay  
Barrangaroo NSW 2000

## **Solicitors**

### **Thomson Geer Lawyers**

Level 25, 1 O'Connell Street  
Sydney NSW 2000

## **Share Registry**

### **Computershare Investor Services Pty Limited**

Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3067

Telephone within Australia: 1300 85 05 05

Telephone outside of Australia: +61 3 9415 5000

Facsimile: (03) 9473 2500

[www.computershare.com](http://www.computershare.com)

[www.investorcentre.com/contactus](http://www.investorcentre.com/contactus)

## **Shareholder Enquiries**

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



MCPHERSON'S  
Est. 1860

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