

Results for announcement to the market

				\$'000
Revenue from continuing operations	consistent	0.0%	to	210,337
Profit from continuing operations before tax excluding significant items	down	0.3%	to	18,980
Profit from continuing operations after tax excluding significant items	up	6.0%	to	13,721
Profit before tax ¹	up	73.4%	To	18,980
Profit after tax ¹	up	165.1%	to	13,721
Profit after tax attributable to members ¹	up	165.1%	to	13,721

¹Including discontinued operation and significant non-recurring items in prior financial year results. There were no discontinued operations or significant items in the current financial year.

Dividends	Amount per security	Franked amount per security
Final dividend	6.0¢	6.0¢
Interim ordinary dividend	4.0¢	4.0¢
Interim special dividend	2.0¢	2.0¢

Payment date for final dividend

26 September 2019

Record date for determining entitlements to the dividend

9 September 2019

McPHERSON'S LIMITED AND CONTROLLED ENTITIES

A.C.N. 004 068 419

FINANCIAL REPORT

YEAR ENDED 30 JUNE 2019

The Board of Directors presents its report on the consolidated entity (referred to hereafter as McPherson's or the Group) consisting of McPherson's Limited and the entities it controlled at the end of, or during, the year ended 30 June 2019.

(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)
J.M. McKellar (Chairman of the Nomination and Remuneration Committee)
G.R. Pearce
A.J. Mew (appointed on 24 July 2018)

(b) Principal activities

McPherson's, established in 1860, is a leading supplier of Health, Wellness and Beauty products in Australasia and increasingly China, with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care and personal care items such as facial wipes, cotton pads and foot comfort products, as well as a range of kitchen essentials such as baking paper, cling wrap and aluminium foil.

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

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 product sourcing and quality assurance.

(c) Dividends

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

	\$'000
Interim ordinary dividend of 4.0 cents per fully paid ordinary share and a special dividend of 2.0 cents per fully paid ordinary share paid on 21 March 2019 (both fully franked)	6,309
Final ordinary dividend of 6.0 cents per fully paid ordinary share declared by Directors (fully franked) and payable on 26 September 2019 but not recognised as a liability at year end	6,380
Total dividends in respect of the financial year	12,689

The 2018 final ordinary dividend of \$2,619,000 (2.5 cents per fully paid ordinary share) referred to in the Directors' Report dated 22 August 2018 was paid on 19 October 2018.

(d) Consolidated results

The consolidated profit after tax of the Group for the financial year ended 30 June 2019 was \$13,721,000 (2018: \$5,176,000). No significant non-recurring items were recognised for the financial year ended 30 June 2019 (2018: \$8,842,000). The consolidated profit after tax for the year ended 30 June 2018, excluding significant non-recurring items, was \$14,018,000. Refer to Note 3 Significant Items for further information.

(e) Review of operations

Divestment of Home Appliances business in FY18

The Group divested its Home Appliances business to Glen Dimplex Australia Pty Ltd in February 2018 with approximately \$29.5 million in net consideration applied to reduce the Group's debt. In order to improve comparability, the comparative figures quoted below for FY18 exclude the Home Appliances business, unless stated otherwise.

Results for the year

McPherson's has reported sales of \$210.3 million for the year ended 30 June 2019, in line with the previous year's \$210.4 million. The Group reported a 7% increase in sales from continuing operations, excluding Fine Fragrances, to \$210.3 million (FY18: \$196.2 million). The strong result was primarily due to the successful execution of McPherson's strategic business imperatives, as outlined below, resulting in 12% growth in sales revenue from owned brands compared with the previous corresponding period (pcp).

EBIT (earnings before interest and tax) was \$19.9 million, 8% below FY18 (\$21.6 million), excluding significant non-recurring items in FY18, noting that in FY19 there are no significant, non-recurring items reported, i.e. the underlying and statutory results for FY19 are aligned. PBT (profit before tax) from continuing operations was \$19.0 million, in line with FY18 (\$19.0 million), excluding significant items from the FY18 PBT. The significant non-recurring items before tax from continuing operations in FY18 comprised a \$0.5 million restructuring costs, \$0.9 million buyback of bonds costs and \$0.5 million hedge ineffectiveness due to extinguishment of interest rate swaps.

Earnings per share (eps), excluding significant non-recurring items from FY18, increased 5% from 12.4 cents in FY18 to 13.0 cents in FY19.

Inclusive of the aforementioned significant non-recurring items and discontinued operations in FY18, McPherson's reported a 165% increase in statutory profit after tax of \$13.7 million (FY18: \$5.2 million).

McPherson's achieved a very strong cash conversion of 117% in FY19 (FY18: 82%) due to a favourable sales mix leading to reduced trade debtors at year end, a reduction in inventory due to the termination of the Trilogy agency agreement and strong sales in Q4 of FY19. Net debt reduced by 24% from \$9.8 million at 30 June 2018 to \$7.5 million at 30 June 2019. This reduction in net debt was achieved despite key strategic investments in the Kotia joint venture and the Aware Group, totalling \$5.9 million. The company's gearing ratio (net debt/total funds employed) decreased to 7.2% at 30 June 2019 from 9.9% at 30 June 2018.

McPherson's Directors declared a total dividend of 12.0 cents per share (cps) fully franked for the full year, comprising ordinary dividends of 10.0 cps and a 2.0 cps special dividend, 41% above the FY18 total dividend of 8.5 cents per share fully franked. The ordinary dividend payout ratio for the year ended 30 June 2019 was 77% of eps.

McPherson's 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. In FY19, McPherson's recorded 13% growth in sales revenue from its core six brands, driven by significant export and domestic growth (125%) on pcp from Dr. LeWinn's.

Strategic partnerships

McPherson's exclusive strategic partnership with Access Brand Management (ABM) is delivering meaningful results and growth in China with sales increasing from \$3 million in FY18 to \$16 million in FY19. A key enabler has been McPherson's strategic supply partnership with the Aware Group. This was clearly illustrated when the Aware Group commenced production for McPherson's three months early to meet strong demand for Dr. LeWinn's products, both domestically and from ABM for the China market.

(e) Review of operations (continued)

Product innovation

McPherson's has continued to invest in its research and development (R&D) capability with an increase of approximately 80% in FY19, the R&D team growing from 8 to 11 staff and over 100 new products developed to support innovations across the business's brands. The rapidly growing mask category in skincare was an area of particular focus and success for the business in FY19, driving strong skincare sales growth in the domestic and export markets.

New Business Development

McPherson's recently established New Business Development Team has actively evaluated over 100 potential new business opportunities in FY19. The Kotia Deer Milk joint venture was the first to be established by the team in November 2018 with New Zealand Deer Cosmetics Ltd (NZDC), a privately owned New Zealand company, to create a unique market offering as the world's first cosmetic range formulated with pure New Zealand deer milk under the new brand "Kotia". The Kotia cosmetic range is formulated with New Zealand deer milk pioneering a new frontier between natural actives and scientifically proven cosmetics to improve skin health, provide nourishing hydration, protect against environmental pollutants and deliver unique formulations for anti-ageing, skin rejuvenation and brightening. The range is developed by a leading New Zealand skincare specialist, dermatologically tested and appropriately certified with clinical proven performance.

The Sugarbaby joint venture was established in May 2019 to create a unique and strengthened offering in the millennial beauty seekers segment of the market. Established in Melbourne in 1998 by two high profile creative founders, Nicci and Lizzie Clifton, Sugarbaby has a rich heritage in colour cosmetics, tanning and skincare with established sales channels across department stores, pharmacies and e-commerce. Nicci and Lizzie have a wealth of experience in developing innovative beauty products and are highly regarded in the industry as being trend setters who are passionate about environmental and social issues. Through the new venture, McPherson's will leverage its expertise to extend the brand into new segments with a focus on innovative and refreshed beauty enhancer products such as masks, lash serums and lip plumpers.

Additionally, the Soulful joint venture was established in July 2019 and will be McPherson's first entry into the Health & Wellness segments. The Soulful product range currently includes Dried Fruit snacks, an Infused Honey range, and Student, Pregnancy and Adult milk powder which are significant international segments. The adult nutritional drinks market in China alone is forecast to reach \$A1.5 billion by 2023, growing at over 35% annually. The Soulful brand also has strong potential within the broader gut health and digestive market, which is currently sized at approximately \$A0.4 billion domestically, growing at over 5% annually, and sized at \$A3.5 billion in China, growing at over 11% annually.

Geographical segmentation of sales

Australia

McPherson's Australian operations' sales revenue was \$193.2 million a decrease of 1% on FY18 (\$194.1 million). Sales from Agency brands reduced by \$17.8 million in FY19, primarily due to the termination of the Coty fine fragrances agreement effective 31 January 2018, which led to a \$14.2 million decline in sales. This was largely offset by the significant growth in the "core six brands". In particular, sales revenue from the Dr. LeWinn's brand grew by 125%.

New Zealand

McPherson's New Zealand business offers a similar range of products to those sold in the Australian market and experienced a significant improvement in performance in FY19 with a 15% increase in sales to \$A9.6 million, largely driven by strong growth in the Dr. LeWinn's brand and growth in agency sales.

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, A'kin, Lady Jayne and Swisspers complemented by a number of licensed brands. Sales reduced by 5% to \$A7.5 million in FY19, due to decreases in agency and private label sales. The Group also has a sourcing operation located in Hong Kong that manages many aspects of product procurement and quality assurance.

(e) Review of operations (continued)

Corporate strategy

The results were achieved in the current financial year through the execution of McPherson's 10 strategic imperatives, being:

1. Refocus our business purely on Health, Wellness and Beauty
2. Revitalise our owned McPherson's brands
3. Improve and maintain financial strength
4. Move from transactional to strategic partnerships with our top six customers
5. Integrate and grow acquired skincare brands: Dr. LeWinn's and A'kin
6. Create a China facing business
7. Ensure we have our team fit for the future with appropriate expertise, capabilities and values
8. Improve performance in New Zealand and Singapore, and expand into Asia
9. Gain efficiencies and savings across the supply chain infrastructure
10. Create a New Business team focused on M&A and new ventures

Execution of these strategic imperatives in FY19 provides a solid foundation for growth in FY20. McPherson's also continues to explore new business opportunities, including seeking a material merger or acquisition opportunity. Investment in our R&D and innovation capabilities to fuel future growth also remains a key strategic imperative for the business.

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 exchange rate 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.

Consistent with the policy, 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.

(e) Review of operations (continued)

Risk management and compliance (continued)

▶ **Raw material price fluctuation**

A significant proportion of the Group's inventory costs are influenced by movements in the price of commodities such as resin and aluminium. Such commodity prices are usually denominated in US dollars and historically are correlated with movements in the AUD / USD exchange rate. This correlation provides a degree of natural hedge against the profit impact of AUD / USD currency movements; 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 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 joint venture activity in Health, Wellness and Beauty.

▶ **Exposure to the China market**

An increasing portion of the Group's sales is generated directly and indirectly by demand from consumers based in China. Consequently, the Group has an exposure to any change in the Chinese market that may impact this demand, such as a change in government regulations that may impact sales of the Group's products to China based consumers. The Group seeks to mitigate this risk by attempting to understand and anticipate changes in the China market that may impact its sales. Additionally, the Group engages with business partners and advisors that are compliant with Chinese regulations and have a strong understanding of the Chinese market.

▶ **Deficiency in product quality**

As a supplier of branded consumer products to retailers, the Group has an exposure to product faults which could lead 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.

(f) Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

(g) Events subsequent to balance date

On 23 July 2019, the Group announced the creation of the Soulful joint venture, which is McPherson's first entry into the Health & Wellness segments. The Soulful product range currently includes Dried Fruit snacks, an Infused Honey range, and Student, Pregnancy and Adult milk powder which are significant international segments. Under the terms of the agreement, McPherson's acquires a 51% interest in the venture company in exchange of \$1.2 million cash consideration, and holds a call option for the remaining 49% holding.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2019 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 2019.

(i) Information on Directors

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

GRAHAM A. CUBBIN, B.Econ. (Hons) – Independent Non-Executive Director and Chairman of the Board
Expertise and experience

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 WPP AUNZ Ltd, Bell Financial Group Limited and White Energy Company Limited.

Former Directorships in ASX listed companies in last three years

Director of Challenger Limited

Interests in shares and performance rights

200,000 ordinary shares in McPherson's Limited

No performance rights held

(i) Information on Directors (continued)

LAURENCE MCALLISTER – Managing Director

Experience and expertise

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 for over 23 years with the Coca-Cola Company, managing New Product Development, M&A, Innovation and the Research and Development function across Europe, Eurasia and the 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

2,454,000 performance rights are held over ordinary shares of McPherson's Limited

GRANT W. PECK, B. Bus, CA – Independent Non-Executive Director

Expertise and experience

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 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

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 ordinary shares in McPherson's Limited

No performance rights held

(i) Information on Directors (continued)

JANE M. McKELLAR, MA (Hons) – Independent Non-Executive Director

Expertise and experience

Ms. McKellar was appointed an Independent Non-Executive Director of McPherson's Limited on 23 February 2015. Ms. McKellar is an experienced international senior executive with extensive customer-focused, brand, marketing and digital experience across a number of high-profile, global brands.

Ms. McKellar commenced her career at Unilever in London and her subsequent roles have included global CEO of Stila Corporation, 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 Graduate of the Australian Institute of Company Directors.

Special responsibilities

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 and GWA Group. Ms McKellar is also on the Board of NRMA.

Former Directorships in ASX listed companies in last three years

None

Interests in shares and performance rights

6,277 ordinary shares in McPherson's Limited

No performance rights held

GEOFFREY R. PEARCE – Independent Non-Executive Director

Expertise and experience

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

Mr. Pearce has more than 40 years of 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 Non-Executive Director and Chairman of Probiotec Limited and a Non-Executive Director of 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

(i) Information on Directors (continued)

ALISON J. MEW, MSc (Hons) – Independent Non-Executive Director

Expertise and experience

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), has undertaken the Executive Development Programme at Melbourne Business School and is a Graduate of the Australian Institute of Company Directors.

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

12,000 ordinary shares in McPherson's Limited

No performance rights held

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 2019, 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	5	5
Laurence McAllister	9	9	n/a	n/a	n/a	n/a
Jane M. McKellar	9	9	4	4	5	5
Grant W. Peck	9	9	4	4	5	5
Geoffrey R. Pearce	9	9	n/a	n/a	n/a	n/a
Alison J. Mew ¹	9	9	n/a	n/a	n/a	n/a

¹ Ms. Mew was appointed as Independent Non-Executive Director on 24 July 2018.

(j) Company Secretaries

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

Expertise and experience

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

Mr. Bennett holds a Bachelor of Commerce from the University of Melbourne and is a Chartered Accountant.

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

PAUL WITHERIDGE, B.Com, CA – Chief Financial Officer and Joint Company Secretary

Expertise and experience

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 holds a Bachelor of Commerce and is a Chartered Accountant.

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.

(k) Remuneration Report

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

Dear Shareholders,

The Board is pleased to present McPherson's Remuneration Report for the year ended 30 June 2019. Our Remuneration Report provides shareholders with a clear and transparent explanation of how we aligned our remuneration policies and outcomes with business performance, reflecting principles which require remuneration to be market competitive, performance based and equitable, and aligned with shareholders' returns.

Our remuneration structure

Oversight of executive remuneration is a fundamental responsibility of the Board. The Board regularly reviews and tests McPherson's remuneration approach to ensure that it remains strongly aligned with shareholder interests. Last year, the Nomination and Remuneration Committee conducted a review with the assistance of remuneration consultants, Guerdon Associates, in order to evaluate our remuneration structure in the context of

McPherson's business strategy, stakeholder feedback, community expectations and relevant market standards. The review confirmed that McPherson's remuneration structure remains appropriate, supporting our strategic objectives and suitably rewarding the delivery of sustainable shareholder returns.

We continue to critically assess our approach to remuneration to ensure that McPherson's practices remain appropriate, reflect current industry best practice, are underpinned by robust risk management, and attract and retain the best talent.

2019 remuneration outcomes

Application of our remuneration framework has ensured that remuneration outcomes for key management personnel (KMP) and other senior executives in 2019 were strongly aligned with shareholder interests.

One fundamental principle is the link between the realisation of long-term incentives, total shareholder returns (TSR) and earnings per share (EPS). The execution of the Group's strategy by KMP resulted in an annual increase of 33% in EPS in 2019, excluding fine fragrance earnings from 2018 EPS. Over the three years to 30 June 2019, TSR has increased at a compound annual growth rate (CAGR) of 20.3%.

Overall, while performance for the year demonstrated strong momentum in the growth of owned brand sales and underlying EBIT, the total variable remuneration for 2019 was down on the prior period, reflecting a shortfall in the Group's EBIT target. This demonstrates our commitment to performance-based rewards.

Performance outcomes positioning McPherson's for growth

2019 has been another year of improved financial health and quality of earnings, with growth in underlying profit before tax, excluding fine fragrances, of 18%, from \$16.3 million in 2018 to \$19.0 million in 2019. McPherson's achieved a strong operating cash conversion of 117% for 2019, consequently net debt reduced from \$9.8 million at 30 June 2018 to \$7.5 million at 30 June 2019, representing a leverage ratio of 0.3 times EBITDA and a gearing of approximately 7.2%. The reduction in net debt was achieved notwithstanding key investments totalling \$5.9 million having been made in the Aware Group, the new Kotia and Sugarbaby joint ventures and dividend payments totalling \$7.0 million made during the year to shareholders.

The Group's strategic direction has been validated by a solid growth of 13% in sales from our core six owned brands, being Dr. LeWinn's, A'kin, Manicare, Lady Jayne, Swisspers and Multix. Other highlights in 2019 included:

- ▶ Strong business model with Access Brands Management, with sales revenue from China exports 5 times higher than 2018, primarily driven by Dr LeWinn's;
- ▶ Transition of Dr. LeWinn's skincare production to the Aware Group to create efficiencies and savings across the supply chain;
- ▶ Increased market presence with over 48,000 incremental distribution points in Australian Pharmacy and Grocery Channels;
- ▶ Successful launch of the Kotia and Sugarbaby joint ventures in New Zealand and Australia.

As noted in the Managing Director's report, the growth outlook for McPherson's has been further enhanced by the recent execution of the new Soulful venture.

We hope you find this report informative and a clear demonstration of our commitment to responsible and effective remuneration practices.

Yours sincerely

Jane McKellar
Chairman of the Nomination and Remuneration Committee

(k) Remuneration Report (continued)

The McPherson's Limited 2019 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:

Name	Role	Term as KMP in 2019
G.A. Cubbin	Chairman (Non-Executive)	Full year
L. McAllister	Executive Director & Managing Director	Full year
J.M. McKellar	Non-Executive Director	Full year
G.W. Peck	Non-Executive Director	Full year
G.R. Pearce	Non-Executive Director	Full year
A.J. Mew	Non-Executive Director	Appointed 24 July 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	Role	Term as KMP in 2019
P. Witheridge	Chief Financial Officer and Company Secretary	Full year
L. Pirozzi	International Sales Director	Full year except for maternity leave from 1 August 2018 to 26 October 2018

Changes since the end of the reporting period

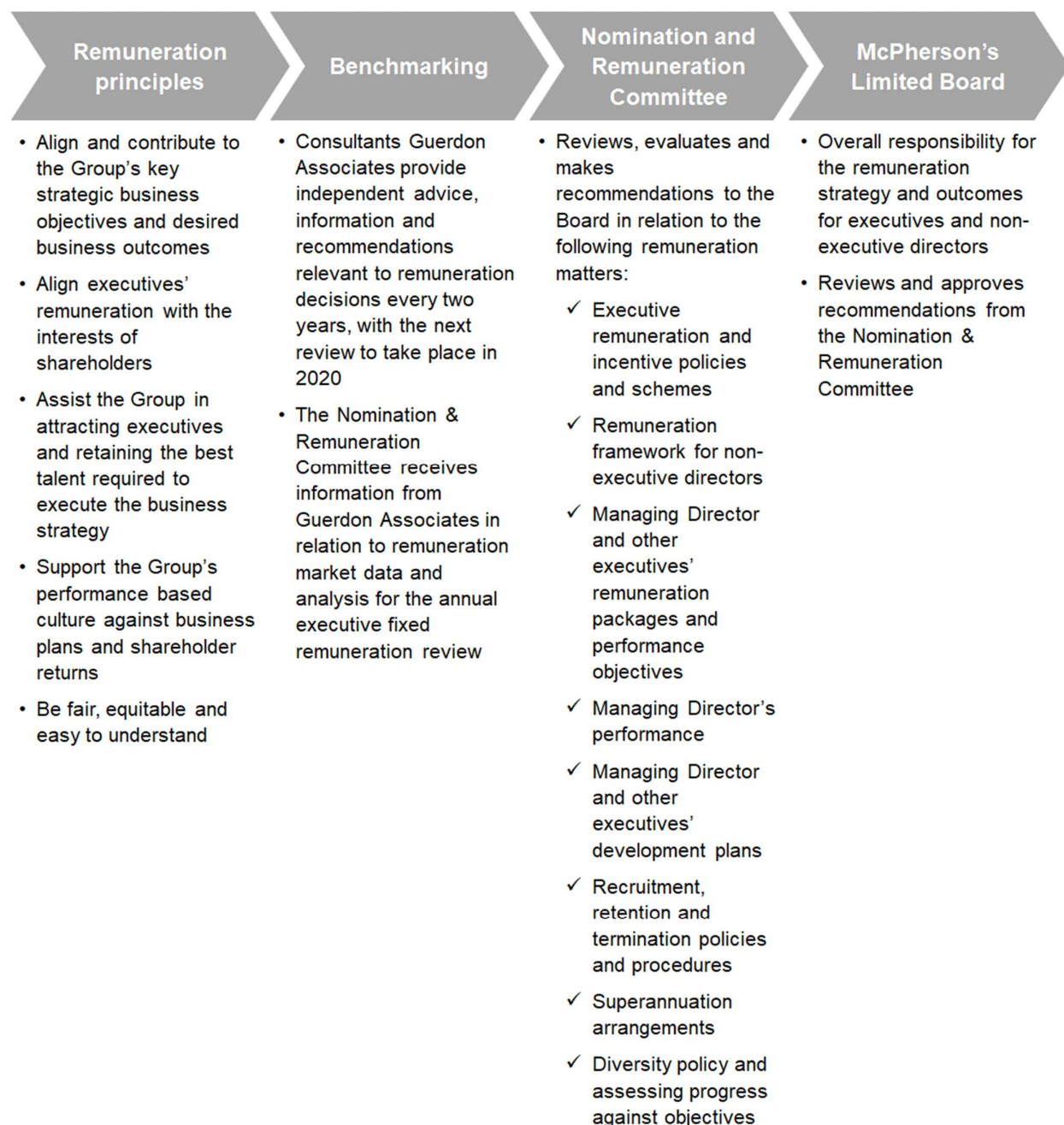
There have been no changes in KMP since the end of the reporting period.

Remuneration structure for key management personnel

On Boarding	Inspire	Develop	Career	Retain
Attract Key Talent into inclusive environment	High Performing Winning Culture	Talent Management	Succession Planning	Reward & Recognition
 <p>FR</p> <p>Fixed Remuneration</p> <p>↓</p>	 <p>STI</p> <p>Short Term Incentive (at risk)</p> <p>↓</p>	 <p>LTI</p> <p>Long Term Incentive (at risk)</p> <p>↓</p>		
Cash			Equity	
Base plus superannuation	Reward for in-year performance STI outcome paid in August after the financial year end	Performance Rights subject to performance conditions		
Salary based on market and internal relativities, performance, qualifications and experience	STI outcome based on the Group's financial, divisional and individual performance	Performance is measured over 3 and 4 years		
Market Competitive Remuneration Package	Reward and Recognition for High Performing Key Talent against determined organisational and individual targets		Alignment to long term shareholder value across strategy supporting executive retention	

(k) Remuneration Report (continued)
Remuneration Governance framework

The illustration below summarises the Group's remuneration governance framework:



(k) Remuneration Report (continued)

Principles used to determine the nature and amount of remuneration

The Group's remuneration strategy is focused on the alignment between performance, prudent risk management and reward outcomes. In a practical context the remuneration strategy is designed to support the attraction, retention and reward of the high performing talent required to deliver superior and sustained returns to shareholders. The remuneration strategy is underpinned by the guiding principles outlined below:

Market-competitive	Performance-based and equitable	Aligned with shareholders and underpinned by sound risk management
<ul style="list-style-type: none"> Attract and retain KMP and employees with the necessary capabilities and experience to deliver McPherson's business strategy. Remuneration structure and quantum benchmarked to the external market applying applicable remuneration surveys and publicly disclosed data. Independent review of KMP remuneration benchmark data by McPherson's remuneration adviser (Guerdon Associates). A blend of fixed and variable remuneration (both short and long-term) based on the responsibilities of each role. 	<ul style="list-style-type: none"> Performance and reward aligned to motivate management to deliver long-term growth for McPherson's and its shareholders. Differentiation of remuneration outcomes based on superior individual contribution to McPherson's performance. Demonstration of McPherson's values and associated behaviours assessed in the performance management process and accordingly linked to remuneration outcomes. Rigorous annual calibration of performance and reward recommendations to ensure internal equity, fairness and transparency. 	<ul style="list-style-type: none"> Long-term share-based awards, with vesting subject to the achievement of total shareholder return (TSR) and earnings per share (EPS) performance targets and time-based vesting conditions. Remuneration processes and governance in place to ensure that remuneration arrangements encourage prudent risk management.

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

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

	2019	2018	2017 ²	2016 ²	2015 ²
Profit/(loss) after tax for the year from continuing operations (\$'000)	13,721	11,359	(387)	9,330	6,650
Profit after tax from continuing operations - excluding significant items (\$'000)	13,721	12,944	11,384	11,277	9,772
Basic earnings/(loss) per share (cents) from continuing operations	13.0	10.9	(0.4)	9.4	6.9
Basic earnings per share (cents) - excluding significant items from continuing operations	13.0	12.4	11.0	11.4	10.1
Dividends declared for the relevant financial year (\$'000)	12,688	8,866	8,288	7,926	7,748
Dividend payout ratio as a percentage of profit / (loss) after tax for the year from continuing operations (%)	92.5	78.1	n/m ³	84.9	116.5
Dividend payout ratio as a percentage of profit from continuing operations excluding significant items (%)	92.5	68.5	72.8	70.3	79.3
Increase / (decrease) in period end share price (%)	(29.3) ¹	31.2	48.6	54.9	(48.4)
Total KMP incentives as percentage of profit / (loss) from continuing operations for the year (%)	2.7	5.8	(139.1)	1.0	6.5
Total KMP incentives as percentage of profit after tax from continuing operations excluding significant items (%)	2.7	5.1	4.7	0.8	4.4

1) As at 31 July 2019, post the ASX release of the preliminary full year results, the share price had increased 11% over the price at 30 June 2018

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

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

(k) Remuneration Report (continued)

Executive remuneration

The executive remuneration and reward framework has three components:

- ▶ Fixed Remuneration, including superannuation and benefits;
- ▶ Short-term performance incentives (STI); and
- ▶ Long-term incentives (LTI).

The Remuneration Framework is summarised in the following table:

Element	Purpose	Performance Metrics	Potential Value	Changes for 2020
Fixed Remuneration	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 executives' contracts.	None
STI	Reward for current year performance available when value has been created for shareholders and when profit and other outcomes are consistent with or exceed financial targets for the business plan.	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.	50% of fixed remuneration. New members of the senior leadership team will have an STI target of 40% of fixed remuneration. At the discretion of the Nomination and Remuneration Committee.	None
LTI	Alignment to long-term shareholder returns via the Performance Rights plan. Participants benefit from the vesting of Performance Rights if performance objectives are met.	Managing Director: i. High Level Performance Rights (HLP) – Compound annual growth rate (CAGR) in earnings per share (EPS) over three years. ii. Exceptional Level Performance Rights (ELP) – CAGR in total shareholder return (TSR) over four years. Other senior executives: 50% of vesting determined with reference to CAGR in EPS and 50% with reference to CAGR in TSR, each over three years.	Managing Director: \$1 million per annum in total comprising: i. HLP – 50% of fixed remuneration. ii. ELP – remaining balance of \$1 million per annum. Other senior executives: 30% to 40% of fixed remuneration.	Other senior executives will have an LTI target of 40% of fixed remuneration.

(k) Remuneration Report (continued)

Short-term incentives (STI)

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 2019 STI targets for the Managing Director and senior executives were structured as follows:

STI element target	Criteria
(i) Financial target 35% of fixed remuneration	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 the prior period
(ii) Non-financial target* 15% of fixed remuneration	Achievement of specific role based key performance indicators, subject to the Group achieving at least 80% of its 2019 EBIT budget

* Or higher at the discretion of the Nomination and Remuneration Committee in order to recognise the achievement of strategic initiatives

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 late August following the end of the financial year to which the incentive relates.

Based on the Group's profit performance in 2019, the Nomination and Remuneration Committee has determined that the Managing Director, KMPs and other senior executives are not eligible for an STI in relation to element (i) as the underlying EBIT outcome in 2019 was below that reported in 2018.

Based on the Group's achievement of pre-determined objectives in 2019 and the significant steps taken to position the business well for 2020, the Nomination and Remuneration Committee has determined that the Managing Director, KMPs and other senior executives are eligible for an STI in relation to element (ii) above in 2019.

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, completing a significant acquisition or investment, achieving a required divestment outcome, completing a significant restructure project or completing a refinancing of the business. The Nomination and Remuneration Committee is responsible for determining when such bonus payments are applicable and the amount to be paid. In 2019, the Nomination and Remuneration Committee has determined that, due to significant progress made by management with the Group's 10 Strategic Business Imperatives, as outlined in the Review of Operations, an additional bonus equivalent to approximately 10% of fixed remuneration will be payable to each of the KMP.

Specific STI performance metrics and outcomes for each KMP in 2019 are summarised in the table below:

KMP	Metrics	Potential STI outcomes	2019 Outcomes
Managing Director	Financial	Financial Pro-rata to target 35% of fixed remuneration	Financial Nil
	(i) If <100% of prior year underlying EBIT with reference to Group EBIT: No STI payable	Non-Financial 15% of fixed remuneration*	Non-Financial \$111,000
Chief Financial Officer and Company Secretary	(ii) If between 100% and 110% of prior year underlying EBIT with reference to Group EBIT: Pro-rata STI payable		Specific outcomes \$74,000
	(iii) If 110% and above prior year underlying EBIT with reference to Group EBIT: Maximum target STI payable	Financial Pro-rata to target 35% of fixed remuneration	Financial Nil
International Sales Director	Non-Financial Achievement of role specific pre-determined objectives providing at least 80% of budget Group EBIT is achieved	Non-Financial 15% of fixed remuneration*	Non-Financial \$59,348
			Specific outcomes \$40,652
International Sales Director		Financial Pro-rata to target 35% of fixed remuneration	Financial Nil
		Non-Financial 15% of fixed remuneration*	Non-Financial \$48,000
			Specific outcomes \$32,000

* Or higher at the discretion of the Nomination and Remuneration Committee in order to recognise the achievement of strategic initiatives

(k) Remuneration Report (continued)

Long-term incentives (LTI)

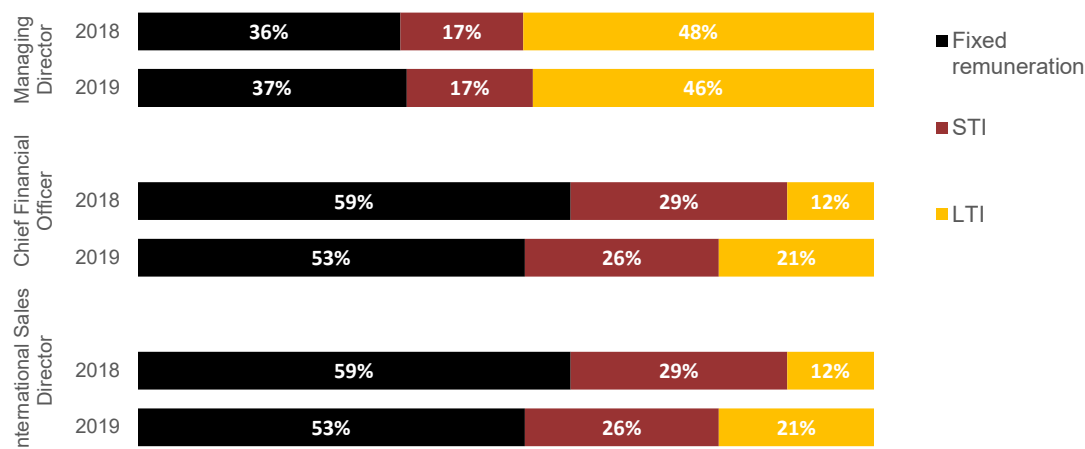
Long-term incentives are provided to executives to align this element of compensation with the objective of improving long-term shareholder returns. During the current year the Group continued with its Performance Rights plan (the McPherson's Limited Performance Rights Plan) to provide long-term incentives 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 24 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 2019 is either 30% or 40% 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 occurs;
- ▶ A takeover bid is made in respect of the Group and the Board recommends acceptance to shareholders;
- ▶ 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 24.

The graph below shows the structure of the 2019 remuneration opportunity mix for KMP, compared to 2018.



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

Voting and comments made at the Company's 2018 Annual General Meeting (AGM)

Of the total votes cast in relation to the adoption of the 2018 remuneration report by shareholders present at the AGM and by proxy, 93.6% voted in favour of the resolution. Several general questions relating to remuneration and the 2018 remuneration report were asked by shareholders at the 2018 AGM, which were appropriately responded to by the Chairman and other Non-Executive Directors at the meeting.

(k) Remuneration Report (continued)

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.

2019	Short-term Benefits			Termination Benefits	Post employment Benefits	Long-term Benefits	Share-based Payments	Total
	Cash Salary & Fees ¹	Cash Bonus ²	Non-monetary Benefits ³		Superannuation	Long-Service Leave	Performance Rights	
Name	\$	\$	\$	\$	\$	\$	\$	\$
Directors of McPherson's Limited								
G.A. Cubbin (Chairman)	150,247	-	-	-	14,274	-	-	164,521
L. McAllister (Managing Director)	727,747	185,000	58,404	-	25,000	13,781	95,399	1,105,331
J.M. McKellar	91,354	-	-	-	8,679	-	-	100,033
G.W. Peck	85,349	-	-	-	8,108	-	-	93,457
G.R. Pearce	75,730	-	-	-	7,194	-	-	82,924
A.J. Mew ⁴	71,167	-	-	-	6,761	-	-	77,928
Total Directors' Remuneration 2019	1,201,594	185,000	58,404	-	70,016	13,781	95,399	1,624,194
Other Group Key Management Personnel								
P. Witheridge	323,617	100,000	20,472	-	24,996	10,253	(28,293)	451,045
L. Pirozzi ⁵	193,892	80,000	-	-	15,976	2,932	4,121	296,921
Total Other Key Management Personnel Remuneration 2019	517,509	180,000	20,472	-	40,972	13,185	(24,172)	747,966
Total Remuneration 2019 – Group	1,719,103	365,000	78,876	-	110,988	26,966	71,227	2,372,160

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 22 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 Mew was appointed on 24 July 2018.

⁵ Ms Pirozzi was on maternity leave from 1 August 2018 to 26 October 2018 which explains the relatively low outcome in comparison to 2018.

(k) Remuneration Report (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

2018	Short-term Benefits			Termination Benefits	Post-employment Benefits	Long-term Benefits	Share-based Payments	Total
	Cash Salary & Fees ¹	Cash Bonus ²	Non-monetary Benefits ³		Superannuation	Long-Service Leave	Performance Rights	
Name	\$	\$	\$	\$	\$	\$	\$	\$
Directors of McPherson's Limited								
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 ⁴	61,194	-	-	-	-	-	-	61,194
J.M. McKellar	87,513	-	-	-	8,314	-	-	95,827
P.M. Payn ⁵	56,900	-	-	-	5,405	-	-	62,305
G.W. Peck ⁶	44,826	-	-	-	4,258	-	-	49,084
G.R. Pearce ⁷	27,282	-	-	-	2,592	-	-	29,874
Total Directors' Remuneration 2018	1,130,556	260,738	57,143	-	59,843	12,200	352,025	1,872,505
Other Group Key Management Personnel								
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
Total Other Key Management Personnel Remuneration 2018	630,101	402,352	20,472	-	50,171	10,086	14,687	1,127,869
Total Remuneration 2018 – Group	1,760,657	663,090	77,615	-	110,014	22,286	366,712	3,000,374

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. Refer page 22 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 Lacaze's fees were paid to a related party, Morgan Consulting Pty Ltd. 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.

(k) Remuneration Report (continued)

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. The table below illustrates the relative proportions of remuneration paid out in 2019 and 2018, except in relation to the LTI element which is determined in accordance with AASB 2 Share-based Payments.

Name	Fixed Remuneration		At Risk - STI		At Risk - LTI	
	2019	2018	2019	2018	2019	2018
Executive Director of McPherson's						
L. McAllister	75%	56%	16%	19%	9%	25%
Other key management personnel of the Group						
P. Witheridge	84%	56%	22%	44%	(6%)	-
L. Pirozzi	72%	73%	27%	24%	1%	3%

Performance based remuneration granted and forfeited during the year

The following table shows for each KMP how much of their 2019 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			LTI Performance Rights		
	Target Opportunity \$	Awarded as % of Target Opportunity	Forfeited %	Value Granted \$	Value Exercised \$	Value Forfeited \$
Executive Director of McPherson's						
L. McAllister	\$370,000	50%	50%	448,120	-	-
Other key management personnel of the Group						
P. Witheridge	\$197,825	51%	49%	82,058	-	57,000
L. Pirozzi	\$160,000	50%	50%	71,916	-	-

(k) Remuneration Report (continued)

Summary of KMP Remuneration and KPI Objectives for 2019

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
L. McAllister <i>Managing Director</i>	\$740,000 including super \$50,000 motor vehicle allowance	Target cash bonus of 50% of fixed remuneration (excluding motor vehicle allowance), comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined KPI objectives Discretionary STI based on achievement of specific outcomes	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 (HLP) 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 (ELP) Balance of the maximum LTI opportunity were 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	Restore underperforming elements of the portfolio Grow market share across the core 6 MCP brands Bring compelling acquisition or JV targets to the table that fit our strategic criteria for material new sources of growth Deliver compelling capabilities/results across Asia Maintain a strong focus on health and safety agenda and records Build a competent, aligned senior team and with international capability
P. Witheridge <i>Chief Financial Officer and Company Secretary</i>	\$395,650 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 KPI objectives Discretionary STI based on achievement of specific outcomes	Rights under the Performance Rights Plan equal to 40% of fixed remuneration with: (i) 50% of the maximum opportunity subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period; and (ii) 50% subject to an absolute "total shareholder return" hurdle of at least 10% per annum, measured on a compound basis over a 3 year performance period.	Assist in the establishment of rigorous criteria to assess new business opportunities and reinvestment of capital back into MCP brands Drive working capital efficiency improvement initiatives Reduce borrowing costs Facilitate various Information technology enhancements to improve customer service levels and improve operational efficiency Develop and execute a focused plan to improve investor relations and analyst and broker engagement Improve the risk reporting and risk management processes of the Group
L. Pirozzi <i>International Sales Director</i>	\$290,000 including super \$30,000 motor vehicle allowance	Target cash bonus of 50% of fixed remuneration (including motor vehicle allowance), comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined KPI objectives Discretionary STI based on achievement of specific outcomes	Rights under the Performance Rights Plan equal to 40% of fixed remuneration (including motor vehicle allowance) with: (i) 50% of the maximum opportunity subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period; and (ii) 50% subject to an absolute "total shareholder return" hurdle of at least 10% per annum, measured on a compound basis over a 3 year performance period	Implement and embed forecasting processes and practices Deliver on China growth through a comprehensive integrated plan for each brand (domestic and China facing) and revised structure to support growth Lead expansion strategy in new domestic channels and international markets in AUS, NZ and Singapore Develop and implement integrated customer plans to support the growth of our Health, Wellness & Beauty business, driving growth for the MCP portfolio and category share Continue to optimise the MCP investment strategy via review of activity and ROI, Trading Terms & Execution across Key Accounts Build Key Account capabilities to support strategy and growth Develop and implement a commercial model to market supported by a defensible price architecture

(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 ¹	Termination
L. McAllister <i>Managing Director</i>	On-going	\$790,000	Contract may be terminated on 6 months' notice by either the Company or executive.
P. Witheridge <i>Chief Financial Officer and Company Secretary</i>	On-going	\$395,650	Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive.
L. Pirozzi <i>International Sales Director</i>	On-going	\$320,000	Contract may be terminated on 1 months' notice by either the Company or executive.

¹The annual fixed remuneration amounts quoted are as at 30 June 2019. They are reviewed annually by the Nomination and Remuneration Committee.

Share-based compensation

Performance Rights

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 for the calendar years from 2016 to 2018 was obtained under ASX Listing Rule 10.14 at the Company's 2016 Annual General Meeting.

(k) Remuneration Report (continued)

Share-based compensation (continued)

Performance Rights (continued)

The number of Rights that will vest will be determined proportionately on a straight line basis as follows:

Type of Rights	KMP	Year of Grant	Vesting Hurdles	Vesting Period
Commencement Rights	Managing Director	2017	To continue to be the Managing Director of the Company until 1 November 2019	3 years
High Level Performance Rights (HLP) and Performance Rights	HLP - Managing Director	2017	Zero Rights vesting at +3.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +8.0% (or higher) Underlying EPS CAGR	3 years
	Performance Rights - Chief Financial Officer (and Company Secretary) and International Sales Director	2018	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
HLP	Managing Director	2019	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
Performance Rights	Chief Financial Officer (and Company Secretary) and International Sales Director	2019	<u>First 50% of Rights</u> Zero Rights vesting at +5.0% Underlying EPS CAGR (or less), to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
			<u>Remaining 50% of Rights</u> 25% of Rights vesting at +10.0% TSR CAGR (at least), to 100% of Rights vesting at +15.0% (or higher) TSR CAGR	3 years
Exceptional Level Performance Rights (ELP)	Managing Director	2017 & 2018	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +25.0% TSR CAGR (or higher)	4 years
		2019	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +20.0% TSR CAGR (or higher)	4 years

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. Subject to the ASX Listing Rules, the Underlying EPS is subject to further adjustment at the discretion of the Nomination and Remuneration Committee when considered appropriate.

(k) Remuneration Report (continued)

Share-based compensation (continued)

Performance Rights (continued)

TSR will be calculated based on movements in the Company's share price and total dividends paid by the Company during the relevant performance period. The base share price to be used in determining whether the vesting conditions have been satisfied for the Managing Director's ELP Rights and the 50% of other KMP's rights which are assessed on TSR CAGR outcomes, is the volume weighted average share price for the 20 trading days ending on 30 June immediately prior to when the rights were issued.

Details of LTI awards are set out in the following table:

Name	Financial year of grant	Financial year in which rights may vest	Number of rights granted	Fair value of rights at grant date ¹	Face value of rights at grant date ²	Number of rights vested during the year	Vested %	Number of rights forfeited during the year	Value at date of forfeiture	Forfeited %
L. McAllister										
Commencement Performance rights	2017	2020	263,000	\$222,235	\$300,000	-	-	-	n/a	-
HLP	2017 2018 2019	2020 2021 2022	318,000 235,000 214,000	\$270,656 \$294,410 \$276,060	\$350,000 \$350,000 \$350,000	- - -	- - -	- - -	n/a n/a n/a	- - -
ELP	2017 2018 2019	2021 2022 2023	590,000 436,000 398,000	\$212,990 \$245,468 \$172,060	\$650,000 \$650,000 \$650,000	- - -	- - -	- - -	n/a n/a n/a	- - -
P. Witheridge	2016 2017 2018 2019	2019 2020 2021 2022	114,000 64,000 49,000 89,000	\$57,000 \$56,128 \$61,446 \$82,058	\$71,000 \$71,000 \$73,129 \$146,258	- - - -	- - - -	114,000 - - -	\$57,000 n/a n/a n/a	100 - - -
L. Pirozzi	2018 2019	2021 2022	43,000 78,000	\$53,922 \$71,916	\$64,035 \$128,070	- -	- -	- -	n/a 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

The fair value of the Performance Rights issued were valued as follows:

Performance Rights	Fair value
Commencement Rights and HLP	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
ELP	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
Other Performance Rights	<p>Financial year of grant before 2019 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</p> <p>Financial year of grant 2019 EPS CAGR element 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</p> <p>TSR CAGR element 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 Performance Rights are also sensitive to market volatility and the initial TSR, with the risk free rate as a further valuation input</p>

(k) Remuneration Report (continued)

Share-based compensation (continued)

Performance Rights (continued)

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. Performance Rights 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	Cancelled	Balance at the end of the year	Vested and exercisable	Unvested
L. McAllister							
Commencement Performance rights	263,000	-	-	-	263,000	-	263,000
HLP	553,000	214,000	-	-	767,000	-	767,000
ELP	1,026,000	398,000	-	-	1,424,000	-	1,424,000
P. Witheridge							
Performance Rights	227,000	89,000	-	(114,000)	202,000	-	202,000
L. Pirozzi							
Performance Rights	43,000	78,000	-	-	121,000	-	121,000

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
Directors of McPherson's Limited			
G.A. Cubbin	150,000	50,000	200,000
L. McAllister	-	-	-
J.M. McKellar	1,560	4,717	6,277
G.W. Peck	14,400	-	14,400
G.R. Pearce	690,939	-	690,939
A.J. Mew (appointed 24 July 2018)	-	12,000	12,000
Other key management personnel			
P. Witheridge	110,000	(10,000)	100,000
L. Pirozzi	-	-	-

Employee share schemes

In the prior 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 was 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 employees, excluding the Managing Director and other members of the Senior Leadership Team who are entitled to a long term incentive, 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 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 granted in 2018 vested 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 ending the day before the date of issue on 31 July 2019.

Applications under the scheme are accepted at the discretion of the Board of Directors. 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. The Board of Directors has determined that the scheme will be continued in 2020 on the same basis as outlined above.

(k) Remuneration Report (continued)

Share-based compensation (continued)

Employee share schemes (continued)

	2019
Number of shares issued on 31 July 2019 under the plan to participating employees	120,771

The number of shares issued to participants on 31 July 2019 was calculated based on the \$1,000 offer amount divided by the weighted average price of \$1.763 at which the company's shares were traded on the Australian Stock Exchange during the week ending the day before the date of issue on 31 July 2019.

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 2018 Annual General Meeting when a total remuneration of \$650,000, increased from \$550,000, (each inclusive of superannuation), was approved by shareholders. The Board asked shareholders to approve such increase 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 appropriate to do so.

Including superannuation guarantee contributions made on their behalf by the Company, Non-Executive Director remuneration for the year ended 30 June 2019 totalled \$518,862 (2018: \$462,806).

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 2019 and continue to apply at the date of this report:

	2019	2018
Base fees		
Chairman	\$144,243	\$144,243
Other Non-Executive Directors	\$75,730	\$75,730
Additional fees		
Audit, Risk Management & Compliance Committee (Chairman)	\$9,620	\$9,620
Audit, Risk Management & Compliance Committee (Member)	\$6,006	\$6,006
Nomination & Remuneration Committee (Chairman)	\$9,620	\$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.

(k) Remuneration Report (continued)

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 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 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, and the following transaction:

- ▶ On 28 February 2019, McPherson's entered into a Subscription Deed and an Issuer Deed Poll with Aware Environmental Limited for the issuance of 3,000,000 convertible notes to McPherson's at \$1.00 subscription price each. Mr. Geoffrey Pearce is a Director and a significant shareholder of Aware Environmental Limited. The transaction was conducted on normal commercial arm's length terms and entered into in order to provide a more robust, preferential and reliable basis of skin care product supply to McPherson's and at lower cost.

(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 2019 (2018: Nil), or since that date, under the McPherson's Limited Employee Share Scheme as no options were exercised. There are no options outstanding at the date of this report.

(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 claim 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 external auditor on assignments additional to their statutory audit duties, where the external auditor's expertise and experience with the Group are relevant.

Details of the amounts paid or payable to the external 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	
	2019	2018
	\$	\$
Other services		
PricewaterhouseCoopers Australian firm:		
Information and communications technology (ICT) review	-	85,000
Total remuneration for other services	-	85,000
Total remuneration for non-audit services	-	85,000

A copy of the auditor's independence as required under section 307C of the *Corporations Act 2001* is set out on page 34.

(q) Rounding

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that instrument, all financial information in this Directors' Report and the Financial Report have been rounded to the nearest thousand dollars unless otherwise stated.

(r) Audit, Risk Management and Compliance Committee

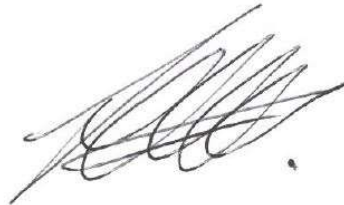
As at the date of this report, McPherson's Limited has an Audit, Risk Management and Compliance Committee consisting of the following independent Non-Executive Directors:

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

Signed in accordance with a resolution of the Directors:



G.A. Cubbin
Chairman
14 August 2019



L. McAllister
Managing Director
14 August 2019



Auditor's Independence Declaration

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2019, 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".

Shannon Maher
Partner
PricewaterhouseCoopers

Sydney
14 August 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.

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 40 to 100 and the remuneration report on pages 12 to 29 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 2019 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 parties to the Deed of Cross Guarantee identified in Note 31 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 31.

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.

G.A. Cubbin
Chairman
14 August 2019

L. McAllister
Managing Director
14 August 2019



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 2019 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 2019
- 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.

PricewaterhouseCoopers, ABN 52 780 433 757

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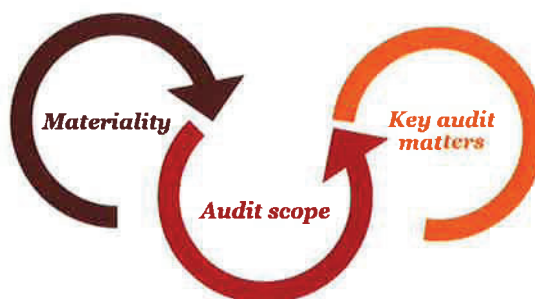
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Our audit approach

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"> For the purpose of our audit we used overall Group materiality of \$0.95 million, which represents approximately 5% of the Group's profit before tax from continuing operations. 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. 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. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. We conducted our audit for the most significant operations being McPherson's Consumer Products Pty Limited Australia. 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. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit, Risk Management and Compliance Committee: <ul style="list-style-type: none"> Impairment of goodwill and brand names Provision for slow moving and obsolete inventory These are further described in the <i>Key audit matters</i> section of our report.



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>Impairment of goodwill (carrying value of \$15.8m) and brand names (carrying value of \$56.8m)</p> <p><i>(Refer to note 1 and 15)</i></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>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">• Cash flow forecasts, including the terminal value forecasts;• Short-term and long-term growth rates; and• The discount rates. <p>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.</p>	<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 FY19 actuals to FY20 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>



Key audit matter

Provision for slow moving and obsolete inventory (inventory carrying value of \$36.7m)

(Refer to note 1 and 10)

The Group has gross inventories of \$40.2m with a provision of \$3.5m for inventory obsolescence/slow moving and discontinued stock. Inventory consists of raw materials and finished goods.

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.

How our audit addressed the 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 annual report for the year ended 30 June 2019, 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 FY2019 Financial Highlights, FY2019 Key Achievements, Chairman's Report, Managing Director's Report, Review of Operations, Board of Directors, Category Overview, Corporate Governance Statement, Shareholder Information and the Corporate Directory.

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

In connection with our audit of the financial report, our responsibility is to read the other information 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 the *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. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 12 to 29 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2019 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 handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'S.T. Maher'.

Shannon Maher
Partner

Sydney
14 August 2019

	Note	2019 \$'000	2018 \$'000
Continuing operations			
Revenue			
Sales revenue		210,337	210,430
Interest	19	70	2
Total revenue		210,407	210,432
Other income		-	592
Total revenue and other income		210,407	211,024
Expenses			
Materials and consumables		(111,228)	(112,070)
Employee costs		(31,643)	(32,202)
Advertising and promotions		(21,852)	(19,338)
Cartage and freight		(7,010)	(7,347)
Third party warehousing		(2,237)	(2,130)
Rental expenses		(4,311)	(4,550)
Depreciation		(1,475)	(1,430)
Amortisation of intangibles		(653)	(778)
Restructuring costs		(178)	(518)
Other expenses		(9,405)	(9,622)
Borrowing costs	19	(956)	(3,956)
Share of net loss of joint ventures accounted for using the equity method		(479)	-
Profit from continuing operations before income tax		18,980	17,083
Income tax expense	6(b)	(5,259)	(5,724)
Profit from continuing operations after income tax		13,721	11,359
Discontinued operations			
Loss from discontinued operations, net of income tax	13	-	(6,183)
Profit for the year after tax		13,721	5,176

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

	Note	2019 \$'000	2018 \$'000
Profit for the year		13,721	5,176
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges	23(a)	(1,138)	4,698
Exchange differences on translation of foreign operations	23(a)	490	392
Reclassification to profit or loss	23(a)	-	(529)
Income tax (expense) relating to these items	23(a)	328	(1,249)
Other comprehensive income for the year		(320)	3,312
Total comprehensive income for the year		13,401	8,488
Total comprehensive income for the year to owners of McPherson's Limited arises from:			
Continuing operations		13,401	14,782
Discontinued operations		-	(6,294)
Total comprehensive income / (loss) for the year		13,401	8,488
Earnings per share		Cents	Cents
Basic earnings /(loss) per share	28	13.0	5.0
Diluted earnings/(loss) per share	28	13.0	5.0
Basic earnings / (loss) per share from continuing operations	28	13.0	10.9
Diluted earnings / (loss) per share from continuing operations	28	13.0	10.9

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

	Note	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents	8	10,472	8,607
Trade and other receivables	9	31,877	29,930
Inventories	10	36,688	38,438
Derivative financial instruments	11	797	1,559
Financial asset at fair value through profit or loss	12	2,934	-
Total current assets		82,768	78,534
Non-current assets			
Property, plant and equipment	14	5,930	3,268
Intangible assets	15	73,973	73,900
Loan receivable from joint ventures	17(d)	1,570	-
Deferred tax assets	16	86	200
Investment in joint ventures	17(c)	716	-
Total non-current assets		82,275	77,368
Total assets		165,043	155,902
Current liabilities			
Trade and other payables	18	32,219	27,958
Borrowings	19	1,667	18,454
Provisions	20	6,098	7,028
Derivative financial instruments	11	234	-
Current tax liabilities		2,506	2,919
Total current liabilities		42,724	56,359
Non-current liabilities			
Borrowings	19	16,269	-
Provisions	20	709	743
Deferred tax liabilities	21	8,813	8,780
Total non-current liabilities		25,791	9,523
Total liabilities		68,515	65,882
Net assets		96,528	90,020
Equity			
Contributed equity	22	157,751	155,882
Reserves	23(a)	4,674	4,828
Accumulated losses	23(b)	(65,897)	(70,690)
Total equity		96,528	90,020

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

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2018		155,882	4,828	(70,690)	90,020
Profit for the year		-	-	13,721	13,721
Other comprehensive income		-	(320)	-	(320)
Total comprehensive income		-	(320)	13,721	13,401
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	22	1,869	-	-	1,869
Dividends provided for or paid	4	-	-	(8,928)	(8,928)
Share-based payment transactions with employees	23(a)	-	166	-	166
Total transactions with shareholders		1,869	166	(8,928)	(6,893)
Balance at 30 June 2019		157,751	4,674	(65,897)	96,528

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2017		154,790	1,236	(67,540)	88,486
Profit for the year		-	-	5,176	5,176
Other comprehensive income		-	3,312	-	3,312
Total comprehensive income		-	3,312	5,176	8,488
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	22	1,092	-	-	1,092
Dividends provided for or paid	4	-	-	(8,326)	(8,326)
Share-based payment transactions with employees	23(a)	-	280	-	280
Total transactions with shareholders		1,092	280	(8,326)	(6,954)
Balance at 30 June 2018		155,882	4,828	(70,690)	90,020

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

	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Receipts from customers, inclusive of GST		240,222	291,710
Payments to suppliers and employees, inclusive of GST		(214,376)	(276,417)
Interest received		30	2
Interest and borrowing costs paid		(890)	(3,210)
Income taxes paid		(5,208)	(5,193)
Net cash inflows from operating activities	32	19,778	6,892
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(4,119)	(1,671)
Payments for purchase of other intangible assets		(643)	(144)
Payments for acquisition of joint venture	17	(1,158)	-
Loan to joint venture	17	(1,529)	-
Payments for convertible note	30	(3,000)	-
Proceeds from sale of business assets	13	-	30,253
Proceeds from sale of property, plant and equipment		-	10
Net cash inflows / (outflows) from investing activities		(10,449)	28,448
Cash flows from financing activities			
Share issue transaction costs	22	(10)	(5)
Proceeds from borrowings		62,982	81,048
Repayment of borrowings		(63,500)	(81,000)
Bonds buyback		-	(25,600)
Interest rate swaps extinguishment		-	(681)
Dividends paid		(7,048)	(7,229)
Net cash outflows from financing activities		(7,576)	(33,467)
Net increase in cash held		1,753	1,873
Cash at beginning of financial year		8,607	6,584
Effects of exchange rate changes		112	150
Cash held at end of financial year	8	10,472	8,607

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

1. Summary of significant accounting policies

The 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 controlled entities.

(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 2018:

- ▶ AASB 15 Revenue from Contracts with Customers

The impact of the adoption of AASB 15 is disclosed in Note 1(b) below.

New standards that have been issued but are not yet effective for the financial year beginning 1 July 2018 and have not been early adopted have been considered in Note 1(ab).

(b) Changes in accounting policies

AASB 15 Revenue from Contracts with Customers

The Group adopted the standard using the modified retrospective approach which means that the cumulative impact of adoption has been recognised in retained earnings as of 1 July 2018 and that the comparatives have not been restated.

The following table shows the adjustment recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, sub-totals cannot be recalculated from the numbers provided. As at 1 July 2018, there was nil impact to the retained earnings. The adjustments are explained in more detail below.

	30 June 2018 as originally presented \$'000	Effects of the adoption of AASB 15 \$'000	1 July 2018 restated \$'000
Current assets			
Trade and other receivables	29,930	4,216	34,146
Current liabilities			
Trade and other payables	(27,958)	(4,216)	(32,174)

(i) Accounting for refunds

When the customer has a right to return the product within a given period, the Group has a potential obligation to refund the purchase price. The Group previously recognised a provision for returns which was measured on a net basis at the margin on the sales (\$83,000 at 30 June 2019 and \$99,000 at 30 June 2018).

(ii) Presentation of assets and liabilities related to contracts with customers

The Group has voluntarily changed the presentation of certain amounts in its balance sheet to reflect the terminology of AASB 15. Customer contract liabilities in relation to expected settlement and promotional discounts, and rights to return of \$4,216,000 were previously presented as part of trade and other receivables. The Group has also reclassified \$6,748,000 from other payables to contract liabilities on 1 July 2018 within trade and other payables.

1. Summary of significant accounting policies (continued)

(c) 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(i)).

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, 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, investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-investment profits or losses of the investee, 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.

(d) 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.

(e) 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.

1. Summary of significant accounting policies (continued)**(e) Foreign currency translation (continued)***Transactions and balances*

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

Group companies

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

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

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

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

(f) Revenue recognition*Sales revenue*

The Group markets and distributes health, wellness and beauty products. Sales are recognised when the control of the products has transferred, being when the products are delivered to the customer. The customer has full discretion over the price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the customer, and the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group's products are often sold on terms that include settlement discounts and volume rebates. Revenue from these sales is recognised based on the price specified in the contract, net of estimated discounts and rebates, using the expected value method. A contract liability is recognised for expected discounts and rebates payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as sales are made with credit term normally between 30 and 60 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

1. Summary of significant accounting policies (continued)

(f) Revenue recognition (continued)

Accounting for refunds

When the customer has a right to return the product within a given period, the entity has a potential obligation to refund the purchase price. A refund liability for the expected refunds to customers is recognised as adjustment to revenue in trade and other payables. At the same time, the Group has a right to recover the product from the customer where the customer exercises its right of return and recognises an asset in trade and other receivables and a corresponding adjustment to cost of sales. The asset is measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition to the Group.

The Group does not have any contracts where the period between the supply of goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

Other income

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

(g) 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.

1. Summary of significant accounting policies (continued)

(g) Income tax (continued)

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 a 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 or credits.

(h) 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.

(i) 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 value 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(s)). 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.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life 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.

1. Summary of significant accounting policies (continued)**(k) Cash and cash equivalents**

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, if any, are shown within borrowings in current liabilities in the balance sheet.

(l) 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.

(m) Inventories

Inventories 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 intercompany 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.

(n) 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.

1. Summary of significant accounting policies (continued)**(o) 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.

(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.

(p) 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.

1. Summary of significant accounting policies (continued)

(p) Derivatives and hedging activities (continued)

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:

- ▶ Gain or loss relating to the effective portion of the intrinsic value of option contracts 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.
- ▶ Gain or loss relating to the effective portion of the spot component of forward contracts 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.

1. Summary of significant accounting policies (continued)

(q) 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.

(r) 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 costs 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.

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(j)).

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

(s) Intangible assets

(i) Goodwill

Goodwill is measured as described in Note 1(i). 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.

1. Summary of significant accounting policies (continued)**(s) Intangible assets (continued)*****(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 five years.

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

(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.

(t) 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 30 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.

(u) 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.

The 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.

(v) 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.

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.

1. Summary of significant accounting policies (continued)**(v) Employee benefits (continued)***(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 Scheme 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-market 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.

1. Summary of significant accounting policies (continued)**(w) 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.

(x) 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 28).

(ii) Diluted earnings per share

Diluted earnings per share adjusts the 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 28).

(y) 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.

(z) 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.

(aa) Rounding of amounts

The Group is of a kind referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in this Directors' Report and the Financial Report have been rounded to the nearest thousand dollars unless otherwise stated.

1. Summary of significant accounting policies (continued)**(ab) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period. The following new standards have been issued but are not yet effective for the financial year beginning 1 July 2018 and have not been early adopted:

AASB16 Leases (mandatory for the Group from 1 July 2019)***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 representing 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.

Management have assessed the following impact from the adoption of the new Lease Standard as at 1 July 2019:

	30 June 2019 as originally presented \$'000	Effects of the adoption of AASB 16 \$'000	1 July 2019 restated \$'000
Current assets			
Right to use asset	-	6,558	6,558
Current liabilities			
Lease Liability	-	(10,925)	(10,925)
Equity			
Accumulated losses	96,527	4,367	100,894

Adoption method

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption on 1 July 2019.

(ac) Parent entity financial information

The financial information for the parent entity, McPherson's Limited, disclosed in Note 34 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.

(ad) 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 brand names with an indefinite useful life

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 15 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.

(ae) 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.

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 function under policies approved by the Board of Directors.

Whilst the Group's hedging policy only allows for highly effective hedge relationships to be established, at times some hedge ineffectiveness can arise. Hedge ineffectiveness can arise from the following hedge risks:

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.

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.

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.

The Group holds the following financial instruments:

	2019 \$'000	2018 \$'000
Financial assets		
Cash and cash equivalents (Note 8)	10,472	8,607
Trade and other receivables (Note 9)	31,877	29,930
Derivatives financial instruments (Note 11)	797	1,559
Financial assets at fair value through profit or loss (Note 12)	2,934	-
Loan receivable from joint ventures (Note 17(d))	1,570	-
Total financial assets	47,650	40,096
Financial liabilities		
Trade and other payables (Note 18)	32,219	27,958
Borrowings (Note 19)	17,936	18,454
Derivatives financial instruments (Note 11)	234	-
Total financial liabilities	50,389	46,412

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

2. Financial risk management (continued)**(a) Foreign exchange risk**

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

The Board's foreign exchange risk management policy is to hedge 100% of anticipated cash flows, mainly inventory purchases, in United States dollars for twelve months. At balance date, 100% (2018: 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 2019 was 0.7023 (2018: 0.7617).

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:

A\$'000	USD	Euro	GBP	HKD	AUD	CNY
30 June 2019 (Group)						
Trade receivables	595	51	43	-	7	6
Trade payables	230	194	74	2,202	64	14
Forward foreign exchange contracts - buy foreign currency	32,389	-	-	-	-	-
Foreign currency options - buy foreign currency	33,224	-	-	-	-	-
30 June 2018 (Group)						
Trade receivables	1,850	62	-	-	927	166
Trade payables	214	149	77	2,107	460	-
Forward foreign exchange contracts - buy foreign currency	31,196	-	-	-	-	3,477
Foreign currency options - buy foreign currency	20,545	-	-	-	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2019, 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 \$ 1,648,153 higher / \$(1,265,789) lower (2018: \$1,576,026 higher / \$2,024,529 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.

2. Financial risk management (continued)**(b) Interest rate risk**

The Group's main cash flow interest rate risk arises from long-term borrowings with variable interest rates. The Group manages its interest rate exposure by maintaining a policy to combine, if considered necessary and approved by the Board, fixed and floating rate liabilities through the use of derivative instruments and entry into fixed rate borrowings.

At 30 June 2019, the Group's debt is at variable rates.

	Weighted average interest rate	Balance \$'000	% of total loans
2019			
Bank loans – variable rate	2.2%	18,000	100%
Net exposure to cash flow interest rate risk		18,000	
2018			
Bank loans – variable rate	2.9%	18,000	98%
Net exposure to cash flow interest rate risk		18,000	

(c) Credit risk

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 9, 11 and 12 for additional information regarding receivables and credit risk exposure.

Trade receivables

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses below also incorporate forward looking information.

2019	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
Expected loss rate	0%	0%	0%	0%	0%	59%	0.4%
Gross carrying amount (\$'000)	25,248	2,977	752	240	18	195	29,430
Loss allowance provision (\$'000)	-	-	-	-	-	115	115

Credit risk concentration

Two external customers represent \$8,657,440 (2018: \$11,472,000) and \$4,454,838 (2018: \$4,819,000) respectively of the closing receivables balance. These debtor balances are in relation to the Australian business.

2. Financial risk management (continued)**(d) Liquidity risk**

	2019 \$'000	2018 \$'000
Financing Arrangements		
The Group has access to the following undrawn borrowing facilities at the end of the reporting period:		
Unused at balance date – floating rate		
Expiry within one year (bank loans)	-	17,000
Expiry beyond one year (bank loans)	27,000	-
Total undrawn borrowing facilities	27,000	17,000

Refer to Note 19 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
30 June 2019						
Non-derivatives						
Payables	32,219	-	-	-	32,219	32,220
Borrowings	2,053	16,397	-	-	18,450	17,936
Total non-derivative financial liabilities	34,272	16,397	-	-	50,669	50,156
30 June 2018						
Non-derivatives						
Payables	27,958	-	-	-	27,958	27,958
Borrowings	18,739	-	-	-	18,739	18,454
Total non-derivative financial liabilities	46,697	-	-	-	46,697	46,412

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 2019 and 30 June 2018 on a recurring basis:

Recurring fair value measurements	30 June 2019				30 June 2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value								
Derivative financial instruments	-	797	-	797	-	1,559	-	1,559
Financial asset through profit or loss	-	-	2,934	2,934	-	-	-	-
Total financial assets at fair value	-	797	2,934	3,731	-	1,559	-	1,559

Recurring fair value measurements	30 June 2019				30 June 2018			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities at fair value								
Derivative financial instruments	-	(234)	-	(234)	-	-	-	-
Total financial liabilities at fair value	-	(234)	-	(234)	-	-	-	-

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 Group holds level 2 and level 3 instruments as at 30 June 2019.

Level 2 instruments

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.

Level 3 instruments

The Group's Financial Assets at Fair Value through Profit or Loss, being the convertible notes with Aware Environmental Limited, are classified as Level 3 as the timing of cash flows, discount rates, conversion scenario, volatility and dividend yield are significant non-observable inputs.

The unobservable inputs into the valuation of the Group's Financial Assets at Fair Value through Profit or Loss are determined based on the best information available, including the Group's own assessment of the assumptions that market participants would use in pricing the asset. Refer to table below for further information regarding the non-observable inputs into the fair value calculation.

The Group calculated the fair value of its Financial Assets at Fair Value through Profit or Loss using a discounted cash flow model to determine the present value of the loan and the Black Scholes model to determine the fair value of the conversion option.

2. Financial risk management (continued)**(e) Fair value measurement of financial instruments (continued)***Level 3 instruments (continued)*

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised with level 3 of the fair value hierarchy during the financial year:

	30 June 2019		30 June 2018	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Opening balance	-	-	-	-
Acquisitions	4,138	-	-	-
Unrecognised gain on acquisition	(1,138)	-	-	-
Fair value gains / (losses)	14	-	-	-
Maturities, disposals and interest	(80)	-	-	-
Transfer to other categories	-	-	-	-
Closing balance	2,934	-	-	-

The following table shows the sensitivity of Level 3 financial instruments to a reasonable change in alternative assumptions in respect of significant non-observable inputs into the fair value calculation:

	Fair value		Significant non-observable inputs	Range of inputs		Reasonable change in non-observable inputs & impact to fair value
	30 June 2019	30 June 2018		30 June 2019	30 June 2018	
	\$'000	\$'000				
Financial Assets at Fair Value through Profit or Loss	2,934	-	Conversion rate	\$0.60 to \$1.00 per convertible note	-	<p>The fair value of the conversion option, embedded in the Financial Asset at Fair Value through Profit or Loss, would increase if the conversion rate increases.</p> <p>The fair value of the conversion option amounts to approximately \$61,000 if the conversion rate is \$0.60, per convertible note and \$2,000,000 if the conversion rate is \$1.00 per convertible note.</p>

3. Significant Items

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

	2019	2018
	\$'000	\$'000
(i) Costs associated with buy back of bonds	-	(932)
Less: Applicable income tax benefit	-	280
	-	(652)
(ii) Restructure costs	-	(518)
Less: Applicable income tax benefit	-	152
	-	(366)
(iii) Hedging ineffectiveness due to extinguishment of interest rate swaps	-	(497)
Less: Applicable income tax benefit	-	149
	-	(348)
(iv) Impairment of New Zealand business segment	-	-
Less: Applicable income tax expense and impairment of net deferred tax assets	-	(219)
	-	(219)
Total significant items from continuing operations	-	(1,947)
Less: Applicable income tax benefit from continuing operations	-	362
	-	(1,585)
(v) Impairment of goodwill related to Home Appliances business (Note 13, 15)	-	(6,444)
Less: Applicable income tax benefit	-	-
	-	(6,444)
(vi) Loss recognised on divestment of Home Appliances business inclusive of Foreign Exchange options ineffectiveness (Note 13 (c))	-	(470)
Less: Applicable income tax benefit (Note 13 (c))	-	211
	-	(259)
(vii) Redundancy costs related to Home Appliances business	-	(792)
Less: Applicable income tax benefit	-	238
	-	(554)
Total significant items from discontinued operations	-	(7,706)
Less: Applicable income tax benefits from discontinued operations	-	449
	-	(7,257)
Total significant items	-	(9,653)
Less: Applicable income tax benefits	-	811
Total Significant Items after income tax	-	(8,842)

4. Dividends

Details of dividends declared during the year ended 30 June 2019 are as follows:

	2019 \$'000	2018 \$'000
Final 30 June 2018 dividend of 2.5 cents per fully paid share (2017: 2.0 cents per fully paid share) fully franked at 30%	2,619	2,079
Interim 2019 ordinary dividend of 4.0 cents per fully paid share (2018: 6.0 cents per fully paid share) fully franked at 30%, and Interim 2019 special dividend of 2.0 cents per fully paid share (2018: nil) fully franked at 30%	6,309	6,247
Total dividends	8,928	8,326
Dividends not recognised at year end Since the year end the Directors have declared a fully franked final dividend of 6.0 cents per fully paid share (2018: 2.5 cents per fully paid share). The aggregate amount of the dividend to be paid on 26 September 2019 but not recognised as a liability at year end is:	6,380	2,619
Franked Dividends Franked dividends paid after 30 June 2019 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 2019. Franking credits available for subsequent financial years based on a tax rate of 30%	23,245	22,708

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 (DRP)

The Company's DRP continues to operate with a discount of 2.5% and will apply to the upcoming final dividend. Shareholders on the register at the record date of 9 September 2019 will be eligible for the dividend. Shareholders wishing to participate in the DRP need to have elected to do so by no later than the trading day immediately following the record date, or by 10 September 2019. Shareholders that have previously elected to participate in the DRP will continue to do so on the same basis unless a formal election to vary or cease participation is provided by 10 September 2019.

The shares issued under the DRP are fully paid ordinary shares and rank equally with other fully paid ordinary shares. The issue price under the dividend reinvestment plan is calculated as the volume weighted average price of all shares sold through normal trade on the ASX during the five trading days commencing on the third trading day after the record date, less a 2.5% discount.

5. 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 \$34,698,000 (2018: \$34,817,000) and \$30,944,000 (2018: \$31,127,000) were derived from two external customers. These revenues were attributable to the Australian segment.

5. 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	Inter- segment eliminations \$000	Consolidated \$000	Less Discontinued Operations \$000	Continuing Operations \$000
2019							
Sales to external customers	193,228	9,631	7,478	-	210,337	-	210,337
Inter-segment sales	2,827	-	2,033	(4,860)	-	-	-
Total sales revenue	196,055	9,631	9,511	(4,860)	210,337	-	210,337
Other revenue / income (excluding interest)	-	-	-	-	-	-	-
Total segment revenue and other income (excluding interest)	196,055	9,631	9,511	(4,860)	210,337	-	210,337
EBITDA before significant items	20,503	307	1,254	-	22,064	-	22,064
Depreciation and amortisation expense	(1,861)	(173)	(94)	-	(2,128)	-	(2,128)
Segment result before significant items	18,642	134	1,160	-	19,936	-	19,936
Significant items before tax	-	-	-	-	-	-	-
Segment result including significant items before tax	18,642	134	1,160	-	19,936	-	19,936
Net borrowing costs					956	-	956
Profit/(Loss) before income tax					18,980	-	18,980
Income tax expense					(5,259)	-	(5,259)
Profit/(Loss) after income tax					13,721	-	13,721
Segment assets	137,114	3,793	24,136	-	165,043		

5. Segment Information (continued)*Segment assets (continued)*

	Australia \$000	New Zealand \$000	Rest of the World \$000	Inter- segment eliminations \$000	Consolidated \$000	Less Discontinued Operations ¹ \$000	Continuing Operations \$000
2018							
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)	-	-	-
Total sales revenue	241,530	8,371	9,635	(3,753)	255,783	45,353	210,430
Other revenue / income (excluding interest)	592	-	-	-	592	-	592
Total segment revenue and other income (excluding interest)	242,122	8,371	9,635	(3,753)	256,375	45,353	211,022
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)
Segment result before significant items	21,412	(166)	1,878	-	23,124	1,569	21,555
Significant items before tax (excluding borrowing related costs, refer Note 5)	(8,054)	(11)	-	-	(8,065)	(7,547)	(518)
Segment result including significant items before tax	13,358	(177)	1,878	-	15,059	(5,978)	21,037
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)
(Loss) after income tax					5,176	(6,183)	11,359
Segment assets	148,489	4,148	25,937	(19,917)	158,657		

¹Refer to Note 13 Discontinued operations

6. Income tax**(a) Income tax expense**

	2019	2018
	\$'000	\$'000
Current tax	4,600	5,823
Deferred tax (Note 6 (a)(i))	1,144	(554)
(Over) / under provision in prior years	(485)	501
Total income tax expense	5,259	5,770
(i) Deferred income tax (credit) / expense included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets (Note 16)	464	(324)
Increase / (decrease) in deferred tax liabilities (Note 21)	680	(230)
Total deferred tax	1,144	(554)

(b) Numerical reconciliation of income tax expense

	2019	2018
	\$'000	\$'000
Total operating profit before tax	18,980	10,946
Prima facie income tax expense at 30%	5,694	3,284
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Impairment of intangible assets	-	1,933
Capital loss on divestment of Home Appliances business	-	(64)
Impairment of tax assets	-	219
Tax rate differences in overseas entities	(163)	(316)
Share-based payments expense	52	85
(Over)/under provision in prior years	(485)	501
Share of loss from investment	96	-
Other	65	128
Income tax expense	5,259	5,770
Income tax expense is attributable to:		
Profit from continuing operations	5,259	5,724
Profit from discontinued operation	-	46
Income tax expense	5,259	5,770

(c) Amounts recognised directly in equity

	2019	2018
	\$'000	\$'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 16)	(4)	(2)

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

Cash flow hedges (Note 16, 21)	328	(1,408)
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7. Key management personnel

	2019 \$	2018 \$
Key management personnel compensation		
Short-term employee benefits	2,162,979	2,501,362
Post-employment benefits	110,988	110,014
Long-term benefits	26,966	22,286
Share-based payments	71,227	366,712
Total key management personnel compensation	2,372,160	3,000,374

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 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 Group and the Directors of McPherson's Limited or with any KMP of the Group, including their 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, and the following transaction:

- ▶ On 28 February 2019, McPherson's entered into a Subscription Deed and an Issuer Deed Poll with Aware Environmental Limited for the issuance of 3,000,000 convertible notes to McPherson's at \$1.00 subscription price each. Mr. Geoffrey Pearce is a Director and a significant shareholder of Aware Environmental Limited. The transaction was conducted on normal commercial arm's length terms and entered into in order to provide a more robust, preferential and reliable basis of product supply to McPherson's and at lower cost.

8. Cash and cash equivalents

	2019 \$'000	2018 \$'000
Cash on hand	7	8
Cash at bank and on deposit (at call)	10,465	8,599
Total cash and cash equivalents	10,472	8,607

9. Trade and other receivables

	2019 \$'000	2018 \$'000
Trade receivables	29,430	27,113
Provision for impairment	(115)	(121)
Trade receivables, net of impairment	29,315	26,992
Other receivables/prepayments	2,562	2,938
Total trade and other receivables	31,877	29,930

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

Balance at 1 July	(121)	(166)
Reversal of provisions for impairment	2	46
Receivables written off as uncollectible	5	-
Foreign exchange	(1)	(1)
Total provision for impairment	(115)	(121)

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 has been recognised, net of any provision for impairment. The following provides an overview of the credit risk associated with trade receivables.

	2019 \$'000	2018 \$'000
Neither past due nor impaired	25,250	18,890
Past due, but not impaired:		
▶ Less than 30 days	2,977	7,775
▶ 30 to 59 days	752	54
▶ 60 to 89 days	240	253
▶ 90 to 119 days	18	2
▶ 120 days or more	193	139
Gross carrying amount	29,430	27,113
Provision for impairment	(115)	(121)
Net carrying amount	29,315	26,992

Credit risk concentration

Two external customers represent \$8,657,440 (2018: \$11,472,000) and \$4,454,838 (2018: \$4,819,000) respectively of the closing receivables balance. These debtor balances are in relation to the Australian business.

10. Inventories

	2019 \$'000	2018 \$'000
Raw materials	5,180	3,961
Finished goods	34,971	37,617
Total inventories	40,151	41,578
Provision for inventory obsolescence	(3,463)	(3,140)
Total inventories, net of obsolescence provision	36,688	38,438

11. 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:

	2019 \$'000	2018 \$'000
Current derivative financial instrument assets		
Forward foreign exchange contracts – cash flow hedges	797	1,557
Foreign currency options – cash flow hedges	-	2
Total current derivative financial instrument assets	797	1,559
Current derivative financial instrument liabilities		
Forward foreign exchange contracts – cash flow hedges	-	-
Foreign currency options – cash flow hedges	234	-
Total current derivative financial instrument liabilities	234	

(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 2019 to June 2020.

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

During the prior year the Group extinguished its fixed interest rate swap contracts due to the high fixed interest rate embedded in the contracts. The Group does not have any fixed interest rate swap contracts in place at 30 June 2019 due to its low level of debt. Refer to Note 2 for further information.

12. Financial assets at fair value through profit or loss

Financial asset mandatorily measured at FVPL include the following:

	2019 \$'000	2018 \$'000
Current assets		
Convertible note receivable	2,934	-

During the year, the following gains/(losses) were recognised in profit or loss:

	2019 \$'000	2018 \$'000
Fair value gain on convertible debt instrument in other income	14	-

Please refer to Note 2 (e) for details on the classification, process, measurement and recognition of this fair value hierarchy Level 3 instrument

13. Discontinued operations**(a) Description**

In 2018, 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 \$29.5 million. 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 year ended 30 June 2018, 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 \$0.5 million at 30 June 2018.

(b) Financial performance and cash flow information

	2018 \$'000
Revenue	45,353
Expenses	(43,784)
Profit from operating activities before income tax and impairment	1,569
Income tax expense	(495)
Significant items after tax	(6,998)
Loss after income tax of discontinued operation	(5,924)
Loss on sale after income tax (see (c) below)	(259)
Loss from discontinued operation	(6,183)
Net cash outflow from operating activities	(4,142)
Net cash outflow investing activities	(975)
Net decrease in cash from discontinued operations	(5,117)

13. Discontinued operations (continued)**(c) Details of the sale of the Home Appliances business**

The details of the disposal are set out below:

	28 February 2018
	\$'000
Cash received	30,253
Transaction costs	(782)
Net consideration	29,471
Carrying amount of net assets sold	(29,782)
Loss on sale before income tax and extinguishment of FX options	(311)
Extinguishment of Foreign Exchange options (Note 23 (a))	(159)
Income tax benefit	211
Loss on sale after income tax (Note 3)	(259)

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
Total assets	35,053
Provisions	3,343
Deferred tax liabilities	1,665
Other payables	263
Total liabilities	5,271
Net assets	29,782

14. Property, plant and equipment

	2019 \$'000	2018 \$'000
<i>Leasehold improvements:</i>		
At cost	292	284
Accumulated depreciation	(269)	(240)
Total leasehold improvements	23	44
<i>Plant and equipment:</i>		
At cost	35,080	31,984
Accumulated depreciation	(29,173)	(28,760)
Total plant and equipment	5,907	3,224
Total property, plant and equipment	5,930	3,268

(a) Reconciliations

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Carrying amount at 1 July 2017	45	4,883	4,928
Additions	-	1,671	1,671
Disposals	-	(16)	(16)
Transfers	-	(1,267)	(1,267)
Depreciation expense	(8)	(2,032)	(2,040)
Foreign currency exchange differences	7	(15)	(8)
Carrying amount at 30 June 2018	44	3,224	3,268
Additions	-	4,119	4,119
Disposals	-	-	-
Depreciation expense	(8)	(1,467)	(1,475)
Foreign currency exchange differences	(13)	31	18
Carrying amount at 30 June 2019	23	5,907	5,930

(b) Non-current assets pledged as security

Refer to Note 19 for information on non-current assets pledged as security by the parent entity and certain controlled entities.

15. Intangible assets

	2019 \$'000	2018 \$'000
Goodwill	15,757	15,674
Brand names	56,827	56,827
Other intangibles	8,439	7,975
Accumulated amortisation	(7,050)	(6,576)
	1,389	1,399
Total intangibles	73,973	73,900

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
Carrying amount at 1 July 2017	28,002	62,351	2,641	92,994
Additions	-	-	144	144
Transfers on disposal of business (Note 13)	(5,949)	(5,524)	(564)	(12,037)
Impairment charge (Note 3)	(6,444)	-	-	(6,444)
Foreign currency exchange differences	65	-	-	65
Amortisation charge	-	-	(822)	(822)
Carrying amount at 30 June 2018	15,674	56,827	1,399	73,900
Additions	-	-	643	643
Impairment charge	-	-	-	-
Amortisation charge	-	-	(653)	(653)
Foreign currency exchange differences	83	-	-	83
Carrying amount at 30 June 2019	15,757	56,827	1,389	73,973

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:

	2019 \$'000	2018 \$'000
Australia	15,757	15,674

The recoverable amount of a cash generating unit (CGU) is determined based on a value-in-use calculation. These calculations use cash flow projections based on financial budgets 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 the CGU, the Group has applied a post-tax discount rate to discount the forecast future attributable post-tax cash flows.

15. Intangible assets (continued)*Impairment Testing (continued)*

The assumptions used in the value-in-use calculation of the Australian CGU are set out below:

	30 June 2019				30 June 2018			
	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	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 calculation. The cash flow projections used for the year one cash flows are based on the Board approved financial budgets. The budgets reflect the Board's expectation of cash flows for the Australian CGU arising from profit optimisation initiatives, new product launches and the inventory rationalisation project. At 30 June 2019, the value-in-use calculation for the Australian CGU exceeded the carrying value of its net assets. The surplus amount for the Australian CGU is \$102,986,000 (June 2018: \$95,388,000).

Impairment charge

No goodwill impairment charge was recognised in 2019.

In 2018, a goodwill impairment charge of \$6,444,000 was recognised against the Home Appliances CGU. This was to reduce the value of the Home Appliances business to reflect the ascribed purchase price upon its pending divestment. Refer to Note 13 Discontinued Operations for further details.

Impact of possible changes in key assumptions

The value-in-use calculation is sensitive to changes in the key assumptions used in the impairment testing. As such, a sensitivity analysis was undertaken by management to examine the effect of changes in key assumptions which would cause the carrying amount to exceed the recoverable amount for the Australian CGU. Management is satisfied that any reasonably likely changes in the key assumptions would not cause the carrying value of the Australian CGU to materially exceed its recoverable amount.

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.

	2019	2018
Estimated growth rates	1.0% - 15.0%	1.0% - 5.0%
Post-tax discount rates	10.0%	10.0%
Pre-tax discount rate equivalents	13.7%	13.7%

At 30 June 2019, the total carrying value of brand names tested using the value-in-use method was \$56,827,000 (2018: \$56,827,000). The value-in-use calculations for these brand names exceeded their carrying values.

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, a brand name impairment charge of \$4,368,000 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, a brand name impairment charge of \$1,479,000 would arise.

If the terminal year growth rates used in the value-in-use calculations were to be 1.0 percentage point lower than management's estimates, a brand name impairment of \$248,000 would arise.

16. Deferred tax assets

	2019 \$'000	2018 \$'000
The balance comprises temporary differences attributable to:		
Employee benefits	1,416	1,459
Depreciation	657	761
Other	455	735
Total temporary differences	2,528	2,955
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 21)	(2,442)	(2,755)
Net deferred tax assets	86	200

Movements

	Cash Flow Hedges \$'000	Employee Benefits \$'000	Depreciation \$'000	Other \$'000	Total \$'000
Opening balance at 1 July 2017	770	1,655	886	1,361	4,672
Charged to profit or loss (Note 6)	-	78	71	175	324
Charged to equity	(770)	-	-	2	(768)
Transfer on Disposal of business (Note 13)	-	(200)	-	(803)	(1,003)
Amortisation of transaction costs on share issues	-	-	-	(10)	(10)
Under/(over) provision in prior years	-	(73)	(196)	(2)	(271)
Foreign currency exchange differences	-	(1)	-	12	11
Closing balance at 30 June 2018	-	1,459	761	735	2,955
Charged to profit or loss (Note 6)	-	27	(67)	(424)	(464)
Charged to equity	-	-	-	4	4
Amortisation of transaction costs on share issues	-	-	-	(8)	(8)
Under/(over) provision in prior years	-	(69)	(37)	126	20
Foreign currency exchange differences	-	(1)	-	22	21
Closing balance at 30 June 2019	-	1,416	657	455	2,528

	2019 \$'000	2018 \$'000
Deferred tax assets to be recovered within 12 months	1,660	1,905
Deferred tax assets to be recovered after more than 12 months	868	1,050
Total deferred tax assets	2,528	2,955

17. Investment in joint ventures**(a) Formation of the Kotia joint venture**

On 21 November 2018, the Group announced a joint venture with New Zealand Deer Cosmetics Ltd (NZDC), a privately owned New Zealand company, to create a unique market offering as the world's first cosmetic range formulated with pure New Zealand deer milk, under the new brand "Kotia".

On 17 December 2018, NZDC transferred its business in New Zealand into a new venture, Kotia Limited (Kotia). NZDC then sold 51% of this new venture to the Group. The consideration for this holding was determined in part through an initial investment of \$2.3 million in Kotia Limited, comprising direct equity and a loan to the joint venture.

Under the terms of the agreement the parties entered into the following put and call options:

- The Group has the option to call an additional 44% of the shares owned by NZDC; and
- NZDC has the option to put its 49% interest in Kotia to the Group.

Please refer to the 31 December 2018 4D half year financial report for further details.

(b) Formation of the Sugarbaby joint venture

On 9 May 2019, the Group announced a joint venture with Sugarbaby International Pty Ltd (SIPL), a privately owned Australian company, to create a unique and strengthened offering in the millennial beauty seekers segment of the market, under the brand "Sugarbaby".

On 8 May 2019, SIPL transferred its business, including cosmetics, tanning and skin care products traded under the "Sugarbaby" brand, in Australia into a new venture, Sugarbaby & Co Pty Ltd ("Sugarbaby"). SIPL then sold 51% of this new venture to the Group. The consideration for this holding was determined through an initial investment of 51 cents in Sugarbaby, comprising direct equity.

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

(c) Interest in joint venture

The following tables summarise financial information of the equity accounted investees.

Name of entity	Place of business / country of incorporation	% of ownership interest 30 June 2019	Nature of relationship	Measurement method	Quoted fair value \$'000 30 June 2019	Carrying amount \$'000 30 June 2019
Kotia Limited	New Zealand	51	Joint Venture	Equity method	-*	703
Sugarbaby	Australia	51	Joint Venture	Equity method	-*	13

*Private entity – no quoted price available

The new ventures are deemed to represent a joint venture on the basis that the unanimous consent of both shareholders is required for several key decisions. Consequently, the Group does not consolidate the results of the joint ventures, rather it equity-accounts for its share of the joint ventures' profit or loss and movements in other comprehensive income.

Movements in carrying amount of equity accounted investment	2019 \$'000	2018 \$'000
Opening balance	-	-
Acquisition of investment in joint ventures	1,195	-
Share of joint ventures' net profit / (loss)	(479)	-
Dividends	-	-
Carrying amount of equity accounted investments	716	-

17. Investment in joint ventures (continued)**(c) Interest in joint venture (continued)**

Share of joint ventures' statement of financial position	2019 \$'000	2018 \$'000
Current assets	843	-
Non-current assets	2,795	-
Total assets	3,638	-
Current liabilities	(1,963)	-
Non-current liabilities	(833)	-
Total liabilities	(2,796)	-
Net assets	842	-

(d) Loan receivable from joint venture

As at 30 June 2019, the shareholder loan from the Group to Kotia amounts to \$1,569,828. The purpose of this shareholder loan is to fund the acquisition of the intangible assets and the working capital of the joint venture. This shareholder loan bears interest of 6% per annum. The loan is not expected to be repaid within 12 months.

18. Trade and other payables

	2019 \$'000	2018 \$'000
Trade payables	17,445	16,326
Customer contract liabilities	9,908	-
Other payables	4,866	11,632
Total trade and other payables	32,219	27,958

19. Borrowings

	2019 \$'000	2018 \$'000
Bank loans – secured	1,667	18,000
Other borrowings	-	454
Total current borrowings	1,667	18,454
Bank loan – secured	16,333	-
Debt issue costs	(64)	-
Total non-current borrowings	16,269	-
Total borrowings	17,936	18,454
Interest income from continuing operations	2019 \$'000	2018 \$'000
Interest income	70	2
Borrowing costs from continuing operations		
Borrowing costs	(933)	(2,307)
Amortisation of refinancing costs	(23)	(220)
Hedging ineffectiveness due to extinguishment of interest rate swaps	-	(497)
Cost associated with buy back of bonds	-	(932)
Total borrowing costs	(956)	(3,956)
Net borrowing costs	(886)	(3,954)

19. Borrowings (continued)

The Group's new facility is denominated in Australian dollars and the facility limit is \$46,900,000 (2018: \$38,500,000). Drawings under this facility are required to be backed by eligible trade debtor and inventory assets. As at 30 June 2019, the Group was compliant with its debt covenants.

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

- ▶ The total leverage ratio must not exceed 2.25 times on the secured bank facility;
- ▶ The Debt Service cover ratio must not be less than 3.50 times; and
- ▶ Total Shareholder funds must not be less than \$65,000,000.

In the prior financial year, the Group completed a buyback of \$10,000,000 unsecured variable rate corporate bonds and \$15,000,000 unsecured fixed rate corporate bonds. The buyback consideration was \$25,600,000 for face value of \$25,000,000. Refer to Note 3 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

	2019	2018
	\$'000	\$'000
Fixed charge		
Property, plant and equipment	5,824	3,176
Intangible assets	72,489	72,883
Total non-current assets pledged as security	78,313	76,059
The following current assets are also pledged as security:		
Fixed charge		
Receivables	28,162	26,329
Floating charge		
Cash	8,718	7,501
Inventories	35,641	37,664
Receivables	1,510	1,666
Total current assets pledged as security	74,031	73,160
Total assets pledged as security	152,344	149,219

20. Provisions

	2019 \$'000	2018 \$'000
Provisions - current		
Employee entitlements	4,678	4,555
Restructure	-	380
Employee incentives	1,320	1,740
Other	100	353
Total current provisions	6,098	7,028
Provisions – non-current		
Employee entitlements	709	743

(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 32% of the current balance will be taken or paid within the next 12 months.

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

(b) Restructure

During the prior year, the Group conducted a restructuring program to continue to align the Group's structure with the current strategy and environment. After the restructuring was formally announced to the employees prior to the end of the year, a provision was raised for the restructuring activities and completed in 2019.

(c) Employee incentives

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

Movement in provisions

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

	Restructure \$'000	Employee Incentives \$'000	Other \$'000
Carrying amount at 1 July 2018	380	1,740	353
Additional provisions charged to profit or loss	-	1,670	-
Unused amounts reversed to profit or loss	(380)	-	(254)
Payments	-	(2,090)	-
Foreign currency exchange differences	-	-	1
Carrying amount at 30 June 2019	-	1,320	100

21. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2019	2018
	\$'000	\$'000
Brand names	11,052	11,067
Cash flow hedges	166	450
Other	37	18
Total temporary differences	11,255	11,535
Set-off of deferred tax asset pursuant to set-off provisions (Note 16)	(2,442)	(2,755)
Net deferred tax liabilities	8,813	8,780
Deferred tax liabilities to be settled within 12 months	191	441
Deferred tax liabilities to be settled after more than 12 months	11,064	11,094
Total temporary differences	11,255	11,535

Movements

	Brand names	Cash Flow	Other	Total
	\$'000	Hedges	\$'000	\$'000
	\$'000	\$'000	\$'000	\$'000
Consolidated				
Closing balance at 30 June 2017	12,732	-	54	12,786
(Credited) to profit or loss (Note 6)	-	(188)	(42)	(230)
Transfer on Disposal of business (Note 13)	(1,665)	-	-	(1,665)
Charged to Equity	-	638	-	638
Foreign exchange	-	-	6	6
Closing balance at 30 June 2018	11,067	450	18	11,535
(Credited) to profit or loss (Note 6)	-	44	636	680
Charged to Equity	-	(328)	-	(328)
Under provision in prior years	(15)	-	(615)	(630)
Foreign exchange	-	-	(2)	(2)
Closing balance at 30 June 2019	11,052	166	37	11,255

22. Contributed equity

	2019 \$'000	2018 \$'000
Issued and paid up capital:		
106,329,245 (June 2018: 104,771,194) ordinary shares – fully paid	157,751	155,882

Movements in ordinary share capital

Date	Details	Number of Shares	Price \$	\$'000
1 July 2017	Opening Balance	103,951,015		154,790
	Shares issued - Dividend reinvestment Plan (DRP) for 30 June 2017 final dividend	165,622	1.39	231
	Shares issued - DRP for 31 December 2017 interim dividend	654,557	1.32	866
	Transaction costs associated with share issues			(7)
	Tax effect of share issue transaction costs recognised directly in equity			2
30 June 2018	Closing Balance	104,771,194		155,882
	Shares issued - DRP for 30 June 2018 final dividend	368,884	1.52	560
	Shares issued - DRP for 31 December 2018 interim dividend	1,189,167	1.11	1,319
	Transaction costs associated with share issues			(14)
	Tax effect of share issue transaction costs recognised directly in equity			4
30 June 2019	Closing Balance	106,329,245		157,751

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 24.

22. Contributed equity (continued)*Capital risk management*

One of the Group's key objectives when managing capital is 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.

One measure the Group uses to assess its capital structure is 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.

	2019 \$'000	2018 \$'000
Total borrowings (Note 19)	17,936	18,454
Less: Cash assets (Note 8)	(10,472)	(8,607)
Net debt	7,464	9,847
Total equity	96,528	90,020
Total capital	103,992	99,867
Gearing ratio	7.2%	9.9%

23. Reserves and accumulated losses**(a) Reserves**

	2019	2018
	\$'000	\$'000
Hedging reserve – cash flow hedges	508	1,318
Share-based payments reserve	2,180	2,014
Foreign currency translation reserve	1,986	1,496
Total reserves	4,674	4,828
<i>Cash flow hedge reserve</i>		
Balance 1 July	1,318	(1,602)
Revaluation – gross	722	1,723
Deferred tax (Note 16, 21)	(212)	(515)
Transfer to cost of sales – gross	(1,860)	2,287
Deferred tax (Note 16, 21)	540	(686)
Transfer to finance costs – gross	-	688
Deferred tax (Note 16, 21)	-	(207)
Reclassification to profit or loss - gross	-	(529)
Tax expense	-	159
Total cash flow hedge reserve	508	1,318
<i>Share-based payments reserve</i>		
Balance 1 July	2,014	1,734
Share-based payments (Note 24 (a))	(39)	260
Employee share scheme (Note 24 (a))	205	20
Total share-based payments reserve	2,180	2,014
<i>Foreign currency translation reserve</i>		
Balance 1 July	1,496	1,104
Currency translation differences arising during the year	490	392
Total foreign currency translation reserve	1,986	1,496

(b) Accumulated losses

	2019	2018
	\$'000	\$'000
Balance 1 July	(70,690)	(67,540)
Profit/(Loss) after tax	13,721	5,176
Dividends provided for or paid	(8,928)	(8,326)
Total accumulated losses	(65,897)	(70,690)

23. Reserves and accumulated losses (continued)**(c) Nature and purpose of reserves***Cash flow hedge reserve*

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(p). Amounts are subsequently either transferred to the initial cost of inventory or reclassified to profit or loss as appropriate.

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

24. Share-based payments**(a) Employee Performance Rights Plan**

Long-term incentives are provided to executives to align this element of compensation with the objective of improving long-term shareholder returns. During the current year the Group continued with its Performance Rights plan (the McPherson's Limited 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) 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 2019 is either 30% or 40% of fixed remuneration.

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 for the years from 2016 to 2019 was obtained under ASX Listing Rule 10.14 at the Company's 2016 Annual General Meeting.

24. Share-based payments (continued)**(a) Employee Performance Rights Plan (continued)**

The number of Rights that will vest will be determined proportionately on a straight line basis as follows:

Type of Rights	KMP	Year of Grant	Vesting Hurdles	Vesting Period
Commencement Rights	Managing Director	2017	To continue to be the Managing Director of the Company until 1 November 2019	3 years
High Level Performance Rights (HLP) and Performance Rights	HLP - Managing Director	2017	Zero Rights vesting at +3.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +8.0% (or higher) Underlying EPS CAGR	3 years
	Performance Rights - Chief Financial Officer (and Company Secretary) and International Sales Director	2018	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
HLP	Managing Director	2019	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
Performance Rights	Chief Financial Officer (and Company Secretary) and International Sales Director	2019	<u>First 50% of Rights</u> Zero Rights vesting at +5.0% Underlying EPS CAGR (or less), to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
			<u>Remaining 50% of Rights</u> 25% of Rights vesting at +10.0% TSR CAGR (at least), to 100% of Rights vesting at +15.0% (or higher) TSR CAGR	3 years
Exceptional Level Performance Rights (ELP)	Managing Director	2017 & 2018	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +25.0% TSR CAGR (or higher)	4 years
		2019	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +20.0% TSR CAGR (or higher)	4 years

24. Share-based payments (continued)**(a) Employee Performance Rights Plan (continued)**

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

	2019		2018	
	Average fair value at grant date	Number of rights	Average fair value at grant date	Number of rights
As at 1 July	\$0.88	3,255,000	\$0.76	2,571,000
Granted during the year	\$0.82	1,094,000	\$0.94	965,000
Lapsed during the year		(925,000)	-	(281,000)
As at 30 June	\$1.09	3,424,000	\$0.88	3,255,000
Vested and exercisable	-	-	-	-

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

Grant date	Vesting date	Number of rights	
		30 June 2019	30 June 2018
27 October 2015	18 September 2018	-	874,000
22 September 2016	25 September 2019	194,000	245,000
21 November 2016	25 September 2019	581,000	581,000
21 November 2016	25 September 2020	590,000	590,000
21 September 2017	22 September 2020	294,000	294,000
21 September 2017	22 September 2020	235,000	235,000
21 September 2017	22 September 2021	436,000	436,000
25 September 2018	25 September 2021	696,000	-
25 September 2018	25 September 2022	398,000	-
Total		3,424,000	3,255,000

The number of Performance Rights granted in September 2016 decreased following the departure of a senior leadership team member in 2019.

24. Share-based payments (continued)**(a) Employee Performance Rights Plan (continued)**

The fair value of the Performance Rights issued were valued as follows:

Performance Rights	Fair value
Commencement Rights and HLP	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
ELP	<p>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</p> <p>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</p>
Other Performance Rights	<p>Financial year of grant before 2019 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</p> <p>Financial year of grant 2019 EPS CAGR element 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</p> <p>TSR CAGR element 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 Performance Rights are also sensitive to market volatility and the initial TSR, with the risk free rate as a further valuation input</p>

(b) Employee share scheme

In the prior 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 was 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 employees, excluding the Managing Director and other members of the Senior Leadership Team who are entitled to a long term incentive, 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 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 granted in 2018 vested 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 ending the day before the date of issue on 31 July 2019.

Applications under the scheme are accepted at the discretion of the Board of Directors. 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. The Board of Directors has determined that the scheme will be continued in 2020 on the same basis as outlined above.

	2019
Number of shares issued on 31 July 2019 under the plan to participating employees	120,771

The number of shares issued to participants on 31 July 2019 was calculated based on the \$1,000 offer amount divided by the weighted average price of \$1.763 at which the company's shares were traded on the Australian Stock Exchange during the week ending the day before the date of issue on 31 July 2019.

24. Share-based payments (continued)**(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:

	2019 \$'000	2018 \$'000
Performance Rights issued under the employee Performance Rights plan	(39)	260
Shares estimated to be issued under employee share scheme	205	20
	166	280

25. Contractual commitments for expenditure**(a) Capital commitments**

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

	2019 \$'000	2018 \$'000
Not later than one year	448	494

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:

	2019 \$'000	2018 \$'000
Not later than one year	4,713	5,085
Later than one year but not later than five years	8,876	12,278
Later than five years		-
Total non-cancellable operating leases	13,589	17,363

26. Contingent liabilities

From time to time, the Group is subject to claims and litigations during the normal course of business. The Board has given consideration to such matters, which are or may be subject to litigation at year end and, subject to specific provisions raised, is of the opinion that no material liability exists.

27. 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:

	2019 \$	2018 \$
(a) PricewaterhouseCoopers Australia		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	327,600	409,300
Total remuneration for audit and other assurance services	327,600	409,300
<i>(ii) Other services</i>		
Information and communications technology (ICT) review	-	85,000
Total remuneration for other services	-	85,000
Total remuneration of PricewaterhouseCoopers Australia	327,600	494,300
(b) Network firms of PricewaterhouseCoopers Australia		
<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	327,600	515,863
(c) Non PricewaterhouseCoopers audit firms		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	30,211	31,484
Total remuneration of non-PricewaterhouseCoopers audit firms	30,211	31,484
Total remuneration of auditors	357,811	547,347

28. Earnings per share

	2019 Cents	2018 Cents
Basic earnings per share	13.0	5.0
Diluted earnings per share	13.0	5.0
Basic earnings per share excluding significant items	13.0	13.5
Basic earnings per share from continuing operations	13.0	10.9
Diluted earnings per share from continuing operations	13.0	10.9
Basic earnings per share from continuing operations excluding significant items	13.0	12.4

Reconciliation of earnings used in calculating earnings per share

	2019 \$'000	2018 \$'000
<i>Basic and diluted earnings per share</i>		
Profit for the period (excluding significant items)	13,721	14,018
Significant items, net of tax (Note 3)	-	(8,842)
Profit for the period	13,721	5,176

<i>Basic and diluted earnings per share</i>		
Profit for the period from continuing operations (excluding significant items)	13,721	12,944
Significant items from continuing operations, net of tax (Note 3)	-	(1,585)
Profit for the period from continuing operations	13,721	11,359

28. Earnings per share (continued)**Weighted average number of shares used as the denominator**

	2019 Number	2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	105,356,954	104,245,147
Adjustments for calculation of diluted earnings per share:		
Commencement rights granted to the Managing Director	248,991	188,693
Shares issued under the employee share scheme are dilutive and therefore are included in the calculation of diluted earnings per share	120,771	799
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	105,726,716	104,434,639

*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 not dilutive for the years ended 30 June 2019 and 2018. 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 2019 and 30 June 2018.

29. Particulars in relation to controlled entities

	Country of Incorporation
McPherson's Limited	Australia
<i>Controlled entities of McPherson's Limited</i>	
Domenica Pty Ltd *	Australia
McPherson's Consumer Products (NZ) Limited	New Zealand
McPherson's Consumer Products Pty Ltd *	Australia
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 Appliances Group Pty Ltd	Australia
A.C.N. 127 192 223 PTY LTD	Australia
McPherson's Consumer Products Pte Ltd	Singapore
Multix Pty Ltd *	Australia
McPherson's America Inc.	USA
McPherson's Publishing Inc (deregistered on 20 June 2019)	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.	China

* 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 34.

All investments represent 100% ownership interest unless otherwise stated.

30. 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

On 28 February 2019, McPherson's entered into a Subscription Deed and an Issuer Deed Poll with Aware Environmental Limited for the issuance of 3,000,000 convertible notes to McPherson's at \$1.00 subscription price each. Mr. Geoffrey Pearce is a Director and a significant shareholder of Aware Environmental Limited. The transaction was conducted on normal commercial arm's length terms, and entered into in order to provide a more robust, preferential and reliable basis of product supply to McPherson's and at lower cost.

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.

31. 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

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.

The following controlled entities were revoked from the Deed of Cross Guarantee on 8 April 2019:

- ▶ 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 Appliances Group Pty Ltd
- ▶ A.C.N. 127 192 223 PTY LTD

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

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2019 of the parties to the Deed of Cross Guarantee.

	2019	2018
	\$'000	\$'000
<i>Income statement</i>		
Revenue	193,228	241,529
Other income	1,149	2,190
Expenses	(175,041)	(230,722)
Finance costs	(956)	(2,695)
Profit before income tax	18,380	10,302
Income tax expense	(4,383)	(5,747)
Profit for the year	13,997	4,555
<i>Summary of movements in consolidated retained profits</i>		
Accumulated losses at beginning of the financial year	(33,369)	(74,495)
Profit after income tax for the year	13,997	4,555
Dividends provided for or paid	8,928	(8,326)
Accumulated losses at the end of the financial year	(10,444)	(78,266)

31. Deed of Cross Guarantee (continued)**(b) Balance sheet**

Set out below is a consolidated balance sheet as at 30 June 2019 of the parties to the Deed of Cross Guarantee.

	2019	2018
	\$'000	\$'000
Current assets		
Cash and cash equivalents	8,235	6,500
Trade and other receivables	28,152	26,429
Inventories	33,393	35,867
Derivative financial instruments	788	1,501
Total current assets	70,568	70,297
Non-current assets		
Other financial assets	4,504	20,776
Property, plant and equipment	5,572	2,805
Intangible assets	72,898	73,900
Investments	83,511	-
Total non-current assets	166,485	97,481
Total assets	237,053	167,778
Current liabilities		
Trade and other payables	51,408	35,190
Borrowings	1,667	18,454
Derivative financial instruments	234	-
Provisions	5,363	6,385
Current tax liabilities	2,573	2,563
Total current liabilities	61,245	62,592
Non-current liabilities		
Payables	-	14,147
Borrowings	16,269	-
Derivative financial instruments	-	-
Provisions	706	616
Deferred tax liabilities	8,847	9,533
Total non-current liabilities	25,822	24,296
Total liabilities	87,067	86,888
Net assets	149,986	80,890
Equity		
Contributed equity	157,751	155,882
Reserves	2,679	3,274
Accumulated losses	(10,444)	(78,266)
Total equity	149,986	80,890

32. Notes to the statement of cash flows**(a) Reconciliation of net cash provided by operating activities to operating profit after income tax:**

	2019	2018
	\$'000	\$'000
Profit after income tax	13,721	5,176
Impairment of goodwill	-	6,444
Loss on divestment	-	259
Tax asset write-off New Zealand and UK	-	303
Depreciation	1,475	2,040
Amortisation of other intangibles	653	822
Accelerated transaction cost at inception on bonds buy back	-	240
Loss/(Gain) on disposal of property, plant and equipment	-	5
Share-based payments expense	173	280
<i>Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets:</i>		
Increase / (decrease) in payables	4,230	(19,278)
(Decrease) / increase in other provisions	(635)	494
(Decrease) in employee entitlements	(372)	(394)
Increase in net tax liabilities	196	93
(Increase) / decrease in receivables	(1,057)	9,945
Decrease in inventories	1,394	463
Net cash inflows from operating activities	19,778	6,892

(b) Non-cash investing and financing activities

	2019	2018
	\$'000	\$'000
Shares issued under Dividend Reinvestment Plan (Note 22)	1,879	1,097

32. Notes to the statement of cash flows (continued)**(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.

	2019	2018
	\$'000	\$'000
Cash and cash equivalents	10,472	8,607
Borrowings repayable within one year (including overdraft)	(1,667)	(18,454)
Borrowings repayable after one year	(16,269)	-
Net debt	(7,464)	(9,847)
Cash and cash equivalents	10,472	8,607
Gross debt at fixed interest rates	-	(454)
Gross debt at variable interest rates	(17,936)	(18,000)
Net debt	(7,464)	(9,847)

	Liabilities from financing activities			
	Cash and cash equivalents	Borrowings due within 1 year	Borrowings due after 1 year	Total
	\$'000	\$'000	\$'000	\$'000
Net debt as at 1 July 2018	8,607	(18,454)	-	(9,847)
Cash flows	1,750	518	-	2,268
Foreign exchange adjustment	115	-	-	115
Other non-cash movements	-	16,269	(16,269)	-
Net debt as at 30 June 2019	10,472	(1,667)	(16,269)	(7,464)

33. Events occurring after balance date

On 23 July 2019, the Group announced the creation of the Soulful joint venture, which is McPherson's first entry into the Health & Wellness segments. The Soulful product range currently includes Dried Fruit snacks, an Infused Honey range, and Student, Pregnancy and Adult milk powder which are significant international segments. Under the terms of the agreement, McPherson's acquires a 51% interest in the venture company in exchange of \$1.2 million cash consideration, and holds a call option for the remaining 49% holding.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2019 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

34. Parent entity financial information**(a) Summary financial information**

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

	2019	2018
	\$'000	\$'000
<i>Balance Sheet</i>		
Current assets	4,681	3,426
Total assets	194,388	190,386
Current liabilities	113,298	117,867
Total liabilities	131,074	131,110
<i>Shareholders' equity</i>		
Issued capital	157,751	155,882
Cash flow hedge reserve	499	1,261
Share-based payments reserve	2,180	2,013
Accumulated losses - 2016 reserve	(104,793)	(104,793)
Retained earnings - 2017/2018/2019 reserves	7,443	4,913
	63,080	59,276
Profit for the period	11,778	10,356
Total comprehensive income	11,016	13,195

(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 31 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.