



McPherson's Limited

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29 September 2017

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

Dear Sir / Madam

Please find attached a copy of the McPherson's Limited Annual Report for the year ended 30 June 2017.

Yours sincerely

Phil Bennett
Company Secretary

ANNUAL REPORT
2017



MCPHERSON'S

EST. 1860

Health, Wellness & Beauty



DR. LEWINN'S®

[A'kin]



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OUR BUSINESS

McPherson's, established in 1860, is a leading supplier of health, wellness, beauty, household, personal care and home appliance products in Australasia, with operations in Australia, New Zealand and Asia.

The Health, Wellness & Beauty division markets and distributes beauty care, hair care, skin care and fragrance product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil and personal care items such as facial wipes, cotton pads and foot comfort products. The Home Appliances division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers.

In addition, by managing and representing major international brands together with retailers' private labels, we are able to provide retail customers with a one-source opportunity for complete category management from product innovation and range development to a menu of how the ranges are delivered and managed in-store.

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

FINANCIAL CALENDAR*

21 November 2017
Annual General Meeting

February 2018
Release of half year results to 31 December 2017

August 2018
Release of full year results to 30 June 2018

September 2018
Publication of Annual Report and accounts for year to 30 June 2018

* Subject to change

DIVIDEND POLICY

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

ANNUAL GENERAL MEETING

The Annual General Meeting of McPherson's Limited will be held at the offices of Thomson Geer, Level 25, 1 O'Connell Street, Sydney, on Tuesday, 21 November 2017 at 11.00 a.m. (AEDT).



HEALTH
WELLNESS
BEAUTY



DR. LEWINN'S®

[A'kin]

The logo for swisspers, featuring the word "swisspers" in a lowercase, sans-serif font inside a white circle.

swisspers

FY2017 KEY
HIGHLIGHTS

13.2 CPS

UNDERLYING EARNINGS
PER SHARE IN 2017

\$279.5M

IN REVENUE

27.0%

REDUCTION IN NET DEBT

29.2%

GEARING RATIO REDUCED
FROM 32.3% IN FY16

\$3.0M

REDUCTION IN SELLING AND
DISTRIBUTION COSTS



FY2017 KEY ACHIEVEMENTS

- ↗ Underlying¹ profit before tax up 14.6% year on year from \$17.1m to \$19.6m
- ↗ 27% reduction in net debt over the last 12 months from \$50m to \$36m
- ↗ Improvement in Group underlying¹ EBIT margins by 94bps to 8.6%
- ↗ Re-focused supply chain and operating platform for future growth in Health, Wellness & Beauty
- ↗ Strong leadership team enhanced with new appointments in R&D, Export, Key Account Management and New Business Development
- ↗ Reinvesting in core brand innovation to drive growth in market share and profit

¹ The FY2016 underlying amounts shown for EBIT, profit before tax, profit after tax and EPS outcomes have each been amended from those disclosed last year so as to exclude \$1.8m of Housewares JV profit, given this aspect of the Company's operations is not continuing.

Anna Bamford,
Ambassador for Dr. LeWinn's.

CHAIRMAN'S REPORT



GRAHAM CUBBIN
Chairman

I am pleased to present the 2017 annual report to the shareholders of McPherson's following a successful year with Laurie McAllister at the helm of your business.

Refocusing the business on Health, Wellness and Beauty has proven to be a rewarding strategy, delivering a double digit improvement in the Group's underlying profit, increased working capital efficiency leading to further reduction in net debt and borrowing costs, and strengthening of the balance sheet.

Of course, it has not been achieved without some restructuring during the period, which saw the planned closure of the unprofitable Impulse Merchandising Division and the elimination of low margin private label and agency revenues. The Board believes the business is in better shape as a result and is well-placed to capitalise on the significant opportunities that exist in Health, Wellness and Beauty – a market that is set to grow in future years.

In support of this approach, the management team has been enhanced with new appointments – in research, export, key account management and business development – and the Company has made significant investment in its internal research and development capability with a focus on new products in target growth segments.

Investment in the brands owned by McPherson's makes good commercial sense. The Company's big six brands – Manicare, Lady Jayne, Dr. LeWinn's, A'kin, Multix and Swisspers – contributed 45 per cent of group

revenue, with several benefitting from refreshed packaging during the year. Product innovation, sourcing cost reductions and a resetting of selling prices across the owned brands, has allowed for reduced participation in low margin private label categories and the delivery of a significant improvement in contribution margin across the range.

Of note was the contribution margin of cosmeceutical skincare brand Dr. LeWinn's, which benefitted from a rebrand, improved packaging and the commencement of sales distribution into the Chinese market. A'kin also achieved strong growth in export to the UK and China. We are encouraged by the potential that exists for the export of McPherson's' brands and support the management team's approach to disciplined overseas expansion. I would encourage you to read the Chief Executive's Report for further detail on the operational strategy of the business.

This year has seen significant further improvements in the financial position of McPherson's with better working capital efficiency and strong operating cash flow facilitating the reduction of net debt levels by 27 per cent. This will result in lower borrowing costs going forward and provides for future investment in product innovation and new markets.

The Board has declared an unchanged final dividend of 2.0 cents per share fully

franked, payable on 20 October 2017 to shareholders on the register at 3 October 2017. The total dividend for the year was 8.0 cents per share, representing a payout ratio of 61 per cent of underlying earnings per share. The Board's dividend policy is to distribute at least 60 per cent of the Company's net earnings to shareholders (subject to other funding requirements). The dividend re-investment plan remains in place.

We should not underestimate the operational and financial improvements achieved over the past 18 months, and the energy and enthusiasm required to maintain focus on structural changes and business efficiencies. We are witnessing an unparalleled period of global and technological change and I believe that McPherson's, a Company after all with a history dating back to 1860, has positioned itself strongly and will continue to benefit from new and existing opportunities, enhanced digital capabilities and planned global distribution.

On behalf of the Board, I would like to take this opportunity to thank Laurie and his entire team for their continued hard work and contribution to a significant year for McPherson's. We remain confident in the strategy and outlook for the business to deliver profitability and stronger brands for the benefit of customers, employees and of course our shareholders.



[Akin]
NATURAL AUSTRALIAN SKINCARE
REPLENISHING ANTIOXIDANT
NIGHT CREAM

[Akin]
NATURAL AUSTRALIAN SKINCARE
HYDRATING ANTIOXIDANT
DAY CREAM

[Akin]
NATURAL AUSTRALIAN SKINCARE
HYDRATING
MIST TONER
Infused with Organic Coconut Water and Green Tea
to instantly refresh, hydrate and tonify.
[ALL SKIN TYPES]
e 150mL/5.0 FL.OZ.US

[Akin]
NATURAL AUSTRALIAN SKINCARE
CLEANSING
MICELLAR WATER
Organic Coconut Water and Green Tea hydrates
and gently lifts away make-up and impurities.
[ALL SKIN TYPES]
e 150mL/5.0 FL.OZ.US

MANAGING DIRECTOR'S REPORT

I am pleased to report that McPherson's has experienced a very solid 12 months and having turned a corner from a period of significant transformation, the focus is now all about growth.

FINANCIAL PERFORMANCE

Underlying¹ profit after tax for the year, excluding non-recurring items, was \$13.7 million compared with \$11.6 million in FY2016, and underlying¹ earnings per share were 13.2 cents compared with 11.8 cents. The statutory loss before tax of \$4.7 million (FY2016: \$14.6 million profit), was impacted by non-cash impairment of intangible assets totalling \$21.6 million before tax.

Total sales revenue was \$279.5 million, 10.6 per cent below the previous year, as a result of the planned closure of the unprofitable Impulse Merchandising division and the discontinuation of lower margin branded and private label product ranges. This improvement in revenue quality supported an 8.6 per cent EBIT margins on sales revenue.

The Company's balance sheet was further strengthened in FY2017, with net debt decreasing 27 per cent from \$50 million at 30 June 2016 to \$36 million at 30 June 2017. This significant improvement in financial position was due to strong operating cash flow before payments of interest and tax of \$30.8 million. Consequently the gearing ratio (net debt divided by total funds employed) reduced from 32 per cent at 30 June 2016 to 29 per cent at 30 June 2017.

DIVISIONAL UPDATE

In the Health, Wellness and Beauty division, which represents 75 per cent of group revenue, the strategy to focus resources on fewer, more significant and profitable brands led to a 600 basis point improvement in contribution margins across our range. This was achieved through new product innovation, sourcing cost reductions and a resetting of selling prices. The strongest performing brands for the full year were Manicare, A'kin and Eylure, with Dr. LeWinn's, Multix and Swisspers also delivering strong growth and contribution.

Of particular note was the substantial revenue and contribution margin growth in the Manicare brand, driven by new fashion-led innovations, an expanded product range and channel expansion. Swisspers, the industry leader in cotton products, achieved double-digit growth in contribution margin and maintained its market leadership position despite strong competition.

This year has seen increased commercial focus and execution capabilities with our six leading customers, driving growth through closer joint business planning.

¹The FY2016 underlying amounts shown for EBIT, profit before tax, profit after tax and EPS outcomes have each been amended from those disclosed last year so as to exclude \$1.8m of Housewares JV profit, given this aspect of the Company's operations is not continuing.

Margins for the market leading cosmeceutical skincare brand Dr. LeWinn's benefited from a focused brand optimisation project, which not only improved margins but also resulted in improved packaging and the commencement of sales distribution into the Chinese market. The A'kin natural skincare and haircare brand also achieved strong growth, particularly in the export channels into the British and Chinese markets. Trilogy, the natural skincare agency, continued to maintain a dominant position in its category.

During the period we signed new agreements with Karen Murrell to sell, market and distribute the all-natural lipstick range and with Dr. Wolff for the Alpecin shampoo and conditioner to arrest hair loss. We have had approximately 50 branded organisations approach us to manage their product distribution in Australia and have a comprehensive evaluation criteria to ensure that we enter partnerships that leverage our strengths and are the right strategic fit for our current portfolio of brands, delivering increased revenues to reinvest in own brands.

The Home Appliances division contributed 25 per cent of the Company's revenue. We are actively engaged in driving growth in the business with successful supply chain savings and selling price increases delivering margin improvement of around 200bps and a very strong last quarter.

STRATEGIC PARTNERSHIPS

This year has seen increased commercial focus and execution capabilities with our six leading customers, driving growth through closer joint business planning. The company continued to diversify and strengthen its sales channels – with greater balance between grocery contributing 34 per cent and further gains in pharmacy, contributing 32 per cent of total revenue.

In today's digital era consumers seek a personal relationship with their brands, particularly within health, wellness and beauty categories.

SUPPLY CHAIN PLATFORM

As mentioned previously, brand consolidation and product rationalisation has created significant efficiencies and increased supply chain capacity at the Sydney distribution centre, Kingsgrove. We view this facility as a significant enabler to reinvest in McPherson's own brands through warehousing and distribution of more profitable product lines. We continue to invest in this vital platform to support McPherson's ambitions for future growth through innovation, research and development, key account management and export.

International sales do not currently contribute a significant portion of our revenue, however we have had initial success this year with Dr. LeWinn's and A'kin's expansion into Asia and view this as a significant area of opportunity that warrants additional resources to evaluate what the ideal structure would look like for the Asian market over the coming months.

In today's digital era consumers seek a personal relationship with their brands, particularly within health, wellness and beauty categories. Over the last year McPherson's have invested in a best in class digital platform to upgrade our websites and ecommerce capabilities. Through our fully integrated marketing campaigns, on-line content such as product tutorials, product selector guides, new product announcements and exclusive behind the scenes videos are enabling our brands to develop a deeper connection with consumers.



LAURENCE McALLISTER
Managing Director

Furthermore we have partnered with key retailers to syndicate our digital content and amplify our campaigns. Our mobile first strategy allows consumers to engage, interact and purchase our brands when, where and however they wish and our tier one digital platform will allow us to be nimble and remain competitive in this ever changing digital landscape.

STRATEGY AND OUTLOOK

Health, Wellness and Beauty is exactly the market where our core in-house and agency brands reside. Combine that with McPherson's strengths in sales, marketing and logistics, we have a very compelling business model with huge potential for growth and category expansion. In Australia alone, the \$4.6 billion health and wellness market has shown compound annual growth of 15 per cent and the \$4.0 billion beauty industry in excess of three per cent growth each year.

Over the past year we have continued to deliver improvements in the financial position and profitability of the business, which puts us in a strong position to invest in innovation and capitalise on these growth opportunities in our key markets. I am confident that we will continue to make positive strides in market share and profitability in FY2018. Thank you for your continued support and I look forward to sharing our progress and successes with you in the coming year.

McPherson's Limited is a leading supplier of Health, Wellness & Beauty and Home Appliance products in Australasia, with operations in Australia, New Zealand and Asia.

OUR BUSINESS

The Health, Wellness & Beauty division markets and distributes beauty care, hair care, skin care and fragrance product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil, and personal care items such as facial wipes, cotton pads and foot comfort products. The Home Appliances division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers.

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

Since the demerger of the Group's printing business in FY2012, McPherson's has embarked on a successful transformation. Through strategic acquisitions and divestments, as well as product innovation, the management team has established a portfolio of trusted and profitable brands across a diverse, multi-channel customer base in Australia, New Zealand and Asia.

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

DIVESTMENT DURING THE YEAR

On 30 September 2016, McPherson's divested 100 per cent of its stake in the Impulse Merchandising business in Singapore to the Fackelmann Group for \$0.5 million. The consideration received was equal to the carrying value of related inventory and \$0.2 million for the value of related brand names. A profit before tax of \$0.2 million was realised on this divestment.

RESULTS FOR THE YEAR

McPherson's sales revenue was \$279.5 million net of customer allowances, 10.6 per cent below the previous year's \$312.6 million. Sales revenue from continuing businesses on a like-for-like basis, i.e. excluding the closed Impulse Merchandising business, was \$19.8 million or 6.6 per cent below FY16. This decrease in sales revenue is the result of the cessation of low margin private label and agency revenues, together with some lost ranging of household consumable products in the major grocery retailers.

EBIT (earnings before interest and tax) from continuing operations, excluding significant non-recurring items, was \$24.0 million, 0.5 per cent above FY16 (\$23.9 million). Excluding significant non-recurring items, profit before tax from continuing operations was \$19.6 million, 14.6 per cent above FY16 (the FY16 underlying amounts have been amended from those disclosed last year so as to exclude \$1.8 million of Housewares JV profit, given this aspect of the Group's operations is not continuing). Non-recurring

items before tax in FY17 comprised a \$21.6 million impairment of intangible assets, \$0.2 million profit recognised from the divestment of Impulse Merchandising operation, \$1.6 million restructuring costs and \$1.3 million bond buyback costs. Significant non-recurring items before tax in FY2016 comprised the \$5.8 million restructuring costs, \$2.0 million gain on the sale of the Housewares, \$1.8 million 49 per cent share of Housewares JV profit, \$0.3 million bond buyback costs and \$0.2 million legal and acquisition costs.

Underlying earnings per share from continuing operations, excluding the significant non-recurring items, increased 12.3 per cent from 11.8 cents per share to 13.2 cents per share.

Inclusive of the aforementioned non-recurring items, McPherson's reported a statutory loss after tax of \$9.1 million, compared with a statutory profit after tax of \$11.0 million in FY16.

Operating cashflow before interest and tax was \$30.8 million, \$3.4 million below FY16, representing a cash conversion rate of 113 per cent of underlying EBITDA of \$27.3 million. Net working capital decreased by \$4.8 million, driven by a \$4.6 million reduction in trade receivables due to improved collection rates.

Net debt decreased by 27.0 per cent from \$49.9 million at 30 June 2016 to \$36.4 million at 30 June 2017. The company's gearing ratio (net debt/total funds employed) decreased from 32.3 per cent at 30 June 2016 to 29.2 per cent at 30 June 2017.

Directors declared a total dividend of 8 cents per share fully franked for the full year. This represented a payout ratio for the year ended 30 June 2017 of 61 per cent of underlying earnings per share, excluding significant non-recurring items.

Strong sales growth achieved by our core Manicare and A'kin brands, in combination with broad based improvement in EBIT margins across the portfolio of Health, Wellness & Beauty brands, has resulted in a double-digit improvement in Group underlying profit, despite an adverse AUD/USD currency in comparison with last year. Importantly our working capital efficiency has also improved, leading to continued reduction in net debt and borrowing costs, strengthening both our balance sheet and operating capacity.

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 policy was reviewed and amended in 2017, with estimated US dollar requirements related to all customers now hedged twelve months forward. The previous policy was for estimated US dollar purchases for all grocery customers to be hedged 12 months forward and other customers hedged 8 months forward. The instruments used for foreign exchange hedging remain unchanged, being options and foreign exchange contracts on a rolling basis.

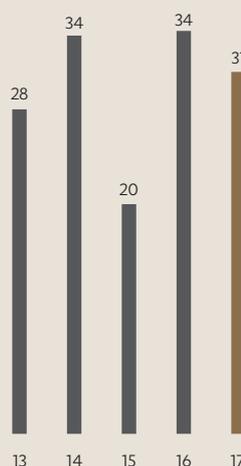
Total expenses, excluding product costs, borrowing costs and significant non-recurring items, decreased by \$13.8 million or 12.6 per cent, largely due to a reduction in employee costs, cartage, freight, third party warehousing and other expenses due to the 10.6 per cent reduction in sales and restructuring initiatives. Consequently the percentage of expenses to sales ratio decreased from 35.1 per cent of sales in FY2016 to 34.3 per cent of sales in FY2017.

During the past year the Group has implemented a number of IT enabled process improvements that have increased the operating effectiveness and efficiency of our Supply Chain team. This has been instrumental in driving working capital improvements and increasing capacity at our Kingsgrove Distribution Centre.



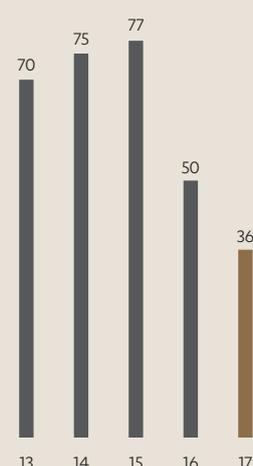
SALES* (\$M)

* Sales are net of customer allowances.

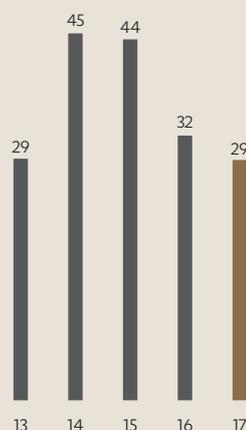


CASH FLOW* (\$M)

* Operating cashflow before interest and tax.



NET DEBT (\$M)



GEARING* (%)

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



EARNINGS* AND DIVIDENDS PER SHARE (CENTS)

* Underlying EPS excludes non recurring items.



Pia Muehlenbeck,
"Glambassador" for Glam by Manicare.

The Group is executing its strategy to grow its market share in the rapidly expanding Health, Wellness and Beauty categories.

AUSTRALIA

McPherson's Australian operation's sales revenue was \$262.1 million, a decrease of 9.0 per cent on FY2016 (\$288.0 million).

This revenue decline was largely due to the closure of the unprofitable Impulse Merchandising Division (IMD) and declines in low margin private label and agency revenues. The Health, Wellness and Beauty division sales declined by \$14.3 million or 6.6 per cent largely due to declines in low margin private label and agency revenues. Additionally the division was adversely impacted by some range deletions by major grocery customers. The strategy to focus on our strong core brands, and reduce our participation in low margin private label categories, led to a 600bps improvement in contribution margins across our range, more than offsetting the aforementioned decrease in revenue. Margin growth was achieved through new product innovation, sourcing cost reductions and a resetting of selling prices across the brands.

The Home Appliances division recorded a revenue decline of \$4.1 million or 5.6 per cent, following the closure of a significant customer, and delays in some key commercial building projects. The EBIT impact of this revenue decline was mitigated by a 210bps improvement in contribution margin, driven by selling price increases and sourcing cost reductions.

NEW ZEALAND

McPherson's New Zealand operation experienced a 34.5 per cent decrease in sales as a result of the closure of the IMD business, material range rationalisation and some loss of ranging in key accounts.

ASIA

From its Asian sales headquarters in Singapore, McPherson's markets an extensive range of health, wellness & beauty products throughout the Asian region. Brands include the key Group-owned brands of Manicare, Lady Jayne and Swisspers complemented by licensed brands. Sales in Asia decreased by 22.0 per cent, largely due to the divestment of Singapore's IMD business. The Group also has a sourcing operation located in Hong Kong that manages many aspects of product procurement, such as quality assurance.

CORPORATE STRATEGY

Following the successful implementation of our strategy to refresh our A'kin range, the Dr. LeWinn's, Lady Jayne, Swisspers and Maseur brands, each will benefit from new, contemporary packaging in FY2018.

Additionally, the Group is executing its strategy to grow its market share in the rapidly expanding Health, Wellness and Beauty categories with a significant investment in its internal Research and Development capability with a focus to create innovative new products in target growth segments.

The Group has also recently entered into two new agency agreements to support growth and profitability in the Health, Wellness and Beauty categories. These agreements are with:

- Dr Wolff comprising the Alpecin and Plantur haircare brands; and
- Karen Murrell, delivering a new range of natural lipsticks.

The Senior Leadership Team has established the following key operational priorities for FY2018:

- Continue to invest in and accelerate the "big six" core brand performance;
- Build new capabilities in R&D, Export and Consumer & Business Intelligence;
- Reshape the structure of our trading terms to improve outcomes for our Key Account Customers and McPherson's via joint strategic business planning;
- Improve shelf presence and stock weight of core brands in our key Pharmacy and Grocery Customers;
- Transition a portion of distribution to optimise utilisation of our Kingsgrove site;
- Execute profitable growth in the Retail and Commercial Home Appliances channels;
- Return our New Zealand operations to profit; and
- Drive further growth in international sales through a focus on China and Europe.

The Senior Leadership Team of the Group are actively involved in the review, isolation and mitigation of key risks.

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

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

- **Reduction in consumer demand** – Given McPherson's reliance on consumer spending, adverse changes to the general economic landscape in Australasia or consumer sentiment for the Group's products could impact its financial results. This risk is addressed through keeping abreast of economic and consumer data/research, innovative product development and brand building.
- **Workplace health and safety** – Given the physical nature of the Group's operations, workplace health and safety are of paramount importance. Significant effort and attention have been placed on internal policies and processes to ensure that employees are aware of their legal obligations and the productivity benefits that come from working safely. A tone of safety first is set at the top of the organisation and is reinforced through commitment of resources including a dedicated workplace health and safety officer.
- **Foreign currency fluctuation** – The Group sources the majority of its inventory in currencies other than Australian dollars, with the US dollar the predominant sourcing currency. Consequently, significant fluctuations in the AUD/USD currency cross can materially impact the Group's result. The Board has established, and regularly reviews, the Group's foreign currency hedging policy with the objective of mitigating short to medium term foreign currency risk.
- **Raw material price fluctuation** – A material proportion of the Group's inventory costs are influenced by movements in commodities such as resin and aluminium. Such commodity prices are denominated in US dollars and historically are correlated with movements in the AUD/USD cross. This correlation provides a degree of natural hedge against the profit impact of movements in the AUD/USD cross; consequently separate risk mitigation measures are not utilised to manage this risk.
- **Loss of a major customer or deranging of a major product range** – A significant proportion of the Group's sales is to two customers in the grocery channel. The delisting of a material product range by one of these customers could materially reduce McPherson's profitability. In order to mitigate this risk, the Group strives to provide superior customer service, product innovation and competitive pricing. It is also pursuing a strategy of channel diversification, as demonstrated by the recent acquisitions in Health, Wellness & Beauty.
- **Deficiency in product quality** – As a supplier of branded consumer products to retailers, the Group has an exposure to product faults leading to liability claims and product recalls. To control this risk, the Group adopts stringent quality control and supplier verification procedures. In addition, it holds adequate product and public liability insurance and product recall insurance.
- **Compliance with debt facility undertakings** – A significant 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 for it 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.



BOARD OF DIRECTORS



GRAHAM A. CUBBIN

B.Econ. (Hons)

Independent Non-Executive Director and Chairman of the Board

EXPERTISE AND EXPERIENCE

Mr Cubbin was appointed an Independent Non-Executive Director of McPherson's Limited 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

Mr Cubbin is a Director of the ASX listed companies Challenger Limited, STW Communications Group Limited, Bell Financial Group Limited and White Energy Company Limited.

FORMER DIRECTORSHIPS IN LAST THREE YEARS

None

INTERESTS IN SHARES AND PERFORMANCE RIGHTS

150,000 ordinary shares in McPherson's Limited. No performance rights held.



LAURENCE McALLISTER

Managing Director

EXPERTISE AND EXPERIENCE

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 he worked over 23 years with the Coca-Cola Company, managing New Product Development, M&A, Innovation and the R&D lab across Europe, Eurasia & Middle East. Mr McAllister was also the President of Nordics and the Chief Commercial & Marketing Officer for Japan, for the Coca-Cola Company. Throughout this tenure Mr McAllister represented the Coca-Cola Company on Boards in Germany, Sweden, Norway, Denmark and Finland.

More recently at Sanofi, Mr McAllister was the Managing Director of the ANZ Affiliate, responsible for six business units with a turn over of \$1.0 billion and \$540 million PBT. In addition to this, he 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 ANZ.

SPECIAL RESPONSIBILITIES

Managing Director

OTHER CURRENT DIRECTORSHIPS

None

FORMER DIRECTORSHIPS IN LAST THREE YEARS

None

INTERESTS IN SHARES AND PERFORMANCE RIGHTS

Nil ordinary shares in McPherson's Limited; and 1,171,000 performance rights over ordinary shares of McPherson's Limited.



MARGARET PAYN

BA (Hons)

Independent Non-Executive Director

EXPERTISE AND EXPERIENCE

Ms Payn was appointed an Independent Non-Executive Director of McPherson's Limited on 12 October 2015.

Ms Payn is an experienced international senior executive with extensive experience in strategy, finance and operations in global financial institutions. Beginning her career with KPMG in London, she subsequently held senior finance, strategy, risk and operations roles in major financial institutions including ANZ, Schrodgers, Citigroup, State Street and Westpac – in Australia, the UK and Asia. She is currently the Chief Financial Officer and Chief Operating Officer at AMP Capital.

Ms Payn has a Bachelor of Arts with Honours from University College London; she is a Fellow of the Institute of Chartered Accountants in England and Wales.

SPECIAL RESPONSIBILITIES

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

Member of the Nomination and Remuneration Committee.

OTHER CURRENT DIRECTORSHIPS

Non-Executive Director of Evergen Pty Ltd

FORMER DIRECTORSHIPS IN LAST THREE YEARS

None

INTERESTS IN SHARES AND PERFORMANCE RIGHTS

43,554 ordinary shares in McPherson's Limited. No performance rights held.

COMPANY SECRETARIES



AMANDA M. LACAZE

BA

Independent Non-Executive Director

EXPERTISE AND EXPERIENCE

Ms Lacaze was appointed an Independent Non-Executive Director of McPherson's Limited on 22 September 2011.

Ms Lacaze has an extensive executive career as a chief executive and as a marketing executive. She is currently CEO and MD of Lynas Corporation Ltd. Previously she has been CEO and MD of Commander Communications, Executive Chairman of Orion Telecommunications, and CEO of AOL[7]. Prior to these roles Ms Lacaze was Managing Director of Marketing at Telstra, and held various business management roles at ICI (now Orica). Ms Lacaze's early experience was in consumer goods with Nestlé.

SPECIAL RESPONSIBILITIES

Member of the Audit Risk Management and Compliance Committee

OTHER CURRENT DIRECTORSHIPS

Non-Executive Director of ING Bank Australia Limited

Executive Director of Lynas Corporation

Director and member of Morgan Lacaze Consulting

FORMER DIRECTORSHIPS IN LAST THREE YEARS

None

INTERESTS IN SHARES AND PERFORMANCE RIGHTS

38,642 ordinary shares in McPherson's Limited



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, USA; Managing Director of Elizabeth Arden Australia; Founding CEO of Excite.com Asia Pacific; Director of Sales and Marketing for Microsoft (MSN); and Founding Director of Ninemsn.

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

SPECIAL RESPONSIBILITIES

Member and Chairman of the Nomination and Remuneration Committee

OTHER CURRENT DIRECTORSHIPS

Non-Executive Director of Automotive Holdings Group

Non-Executive Director of Terry White Chemmart

Non-Executive Director of GWA Group

FORMER DIRECTORSHIPS IN LAST THREE YEARS

Non-Executive Director of Helloworld Limited

Non-Executive Director of Seachange Technologies Pty Ltd (remains an advisor)

INTERESTS IN SHARES AND PERFORMANCE RIGHTS

None



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 is a Chartered Accountant and has a Commerce degree.

Before joining McPherson's, Mr Witheridge held senior financial and company secretarial positions with a number of listed companies in the retail sector including Angus and Coote Limited and OPSM Limited. Prior to that Mr Witheridge spent six years within KPMG's Audit and Assurance Practice.



PHILIP R. BENNETT

B.Com, CA

Joint Company Secretary

EXPERTISE AND EXPERIENCE

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

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

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



HEALTH, WELLNESS & BEAUTY

McPherson's has established a clear strategy of becoming a Health, Wellness and Beauty company and to achieve this we have continued to invest in our own successful market leading brands and have also aligned ourselves with strong reputable agency brands that enhance and complement our existing portfolio.

FY17 built on the previous year's strategic concept of fewer, bigger, better brands by focusing on our Top 5 brands of Dr. LeWinn's, A'kin, Manicare, Lady Jayne and Swisspers.

This focus was strengthened by changing the way we structured our relationships with our agency partners. Appreciating the strength these brands bring to our organisation, we created an agency division within our marketing team and introduced two additional agency partnerships with Karen Murrell lipsticks and Dr Wolff's Alpecin and Plantur 39. This will further provide an opportunity to succeed in becoming a Health, Wellness and Beauty Company.

DR. LEWINN'S

Dr. LeWinn's remains the number one cosmeceutical facial skincare brand within Australian pharmacies. In the early part of FY17, Dr. LeWinn's appointed Australian Actress Anna Bamford as the Ambassador for the Dr. LeWinn's brand, appearing in the Eternal Youth Range advertising. This allowed the brand to extend its reach with consumers encouraging a younger market to engage with the brand. In addition to this, the brand underwent its own beauty regime by designing new packaging for each of its sub brands. The invigoration into the brand now allows women of all ages and varying skin types to easily select the best Dr. LeWinn's regime for their needs. Once again, Dr. LeWinn's continues to encourage women to harness their inner beauty.

A'KIN

FY17 has been an exciting year of change for A'kin, with the launch of its new contemporary packaging which superbly displays its natural, Australian positioning. New on-trend ingredients, Coconut Water and Green Tea, were introduced within a range of Day & Night Creams, a Mist Toner and Micellar Water. 'It's what goes in that makes it A'kin' fronted a new advertising campaign, setting the brand apart from other Natural offerings. In October 2017, this new look will extend to the brand's hair care offerings. With a high level of retailer support and a pipeline of innovation, A'kin is set to reach new heights in Natural Beauty in FY18, both domestically and abroad.

CATEGORY OVERVIEW

HEALTH, WELLNESS & BEAUTY

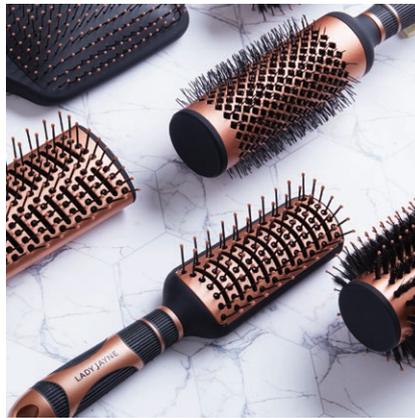


MANICARE / GLAM BY MANICARE

FY17 and early FY18 are exciting times within the Manicare brand and sub brand Glam by Manicare. Both brands have continued to lead the market within their own category space, and continue to grow with the help of new marketing campaigns and innovative product launches.

Manicare in early FY18, launched its first media campaign utilising television, “The Many Faces of Manicare”, featuring the next generation cosmetic brush range endorsed by celebrity make-up artist Liz Kelsh. In addition, the Glam by Manicare brand has launched its own stylish premium and high-quality range of cosmetic brushes, with a glamorous look and feel, complementing its existing nail and lashes ranges, and during FY17 appointed its first “Glambassador” Pia Muehlenbeck. Pia’s Instagram influencer status coupled with a targeted television and digital campaign, has allowed Glam by Manicare to reach the consumer in a more exciting and relevant format.

Both campaigns are strengthened further with the use of online tutorials which feature on the brands website, allowing consumers to engage with both the products and our Glambassador Pia Muehlenbeck.



LADY JAYNE

Lady Jayne has changed the way she looks, bringing in a new modern and contemporary packaging. Lady Jayne had shown innovation last year using Flexi-Coil technology with the launch of Lady Jayne Styleguard accessories. Building on this innovation, Lady Jayne has revolutionised its range of professional brushes with new ceramic copper base plates and ionic bristles to inspire new styles.

The range features the unique 2-in-1 VADDLE brush combining the benefits of the popular paddle brush and vented brush, providing consumers with a better product for their hair needs. The new professional range of brushes, coupled with the new look of our existing range, brings Lady Jayne into the now, without losing any of the class or sophistication our loyal consumers are accustomed to. Lady Jayne continues to refresh the brand and bring innovative products to shelf. Coupled with collaborations with professional stylists, the brand continues to deliver on the ideal that with Lady Jayne, one can be assured of always looking great and feeling effortlessly confident.



SWISSPERS

With McPherson’s focus moving to a Health, Wellness and Beauty business, Swisspers has seen many changes and during FY17 was re-introduced as a top five brand within the organisation. The renewed focus on the brand has resulted in the creation of a new visual identity across the logo and brand packaging that modernises the brand and reflects the premium, elegant positioning that consumers associate with Swisspers. New products launched in facial wipes have been very favourably received by retailers and consumers; with on-trend ingredients, engaging packaging and superior formulations we expect to see these perform strongly in the market.



LADY JAYNE

manicare

HOME APPLIANCES

Following the closure of Masters in FY17, and delays in some key commercial building projects, sales in the Home Appliances division declined by 7 per cent. Excluding the Masters affect, sales were down 3 per cent.

Home Appliances has continued to invest in new product development with the release of a number of new models in FY17.

Cooking is at the core of the business and new product brought to market in the range hood and cook top categories have complimented the strength in the built in, and upright cooker categories.

In FY16 Home Appliances successfully launched new models in the 540 freestanding cooker category, under the Euromaid brand. Further models were launched in FY17 and strong support from our retail partners has consolidated our position as the number 2 brand in this category.

Home Appliances launched a new range of Euromaid Front Load washing machines in the last quarter of FY17. This will continue the momentum created in this category for the business in FY16 and FY17.

The dishwasher category has delivered growth for Home Appliances in FY17 following a strong FY16. Well featured product with brushless motors, extra cutlery tray and an active fan drying system, at a competitive price, continue to be well received by the market.

HOUSEHOLD CONSUMABLES

Multix continues to be the market leading brand in Australian Grocery in the bags, wraps and foils categories with more than 100 different products available across the major supermarkets and discount department stores.

Six out of 10 Australian households purchased a Multix product in FY17 making it Australia's favourite for food preparation, storage and garbage disposal.

Trading conditions in Supermarkets continue to be challenging and the focus on retailer range rationalisation has resulted in some deletions of Multix product in FY17. Consumer research has revealed new product ideas that Multix can bring to market in FY18 to help reinforce our market leading status into the future.

Smart sourcing strategies also led to some cost relief resulting in improved product margins in some categories for FY17.



Multix®

BAKE

Inspiring Professional Bakers

CORPORATE GOVERNANCE STATEMENT

The Board of Directors is committed to achieving and demonstrating the highest standards of corporate governance. This is considered to be essential for the long term performance and sustainability of the Group, and to protect and enhance the interests of shareholders and other key stakeholders.

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

The Corporate Governance Statement has been approved by the Board and is current as at 22 August 2017. The statement outlines the Group's main corporate governance practices in place during the financial year ended 30 June 2017, and currently. A copy of the Group's Corporate Governance Statement can be found in the Corporate Governance section of the McPherson's Limited website which is located at www.mcphersons.com.au/corporate-governance.

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DIRECTORS' REPORT

The Board of Directors presents its report on the consolidated entity (referred to hereafter as the Group) consisting of McPherson's Limited and the entities it controlled at the end of, or during, the year ended 30 June 2017.

(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 (appointed as Managing Director on 21 November 2016)

P.J. Maguire (retired as Managing Director on 21 November 2016)

A.M. Lacaze

J.M. McKellar (Chairman of the Remuneration Committee)

P.M. Payn (Chairman of the Audit Risk Management & Compliance Committee)

(B) PRINCIPAL ACTIVITIES

McPherson's, established in 1860, is a leading supplier of Health, Wellness & Beauty and Home Appliance products in Australasia, with operations in Australia, New Zealand and Asia. The Health, Wellness & Beauty division markets and distributes beauty care, hair care, skin care and fragrance product ranges, kitchen essentials such as baking paper, cling wrap and aluminium foil, and personal care items such as facial wipes, cotton pads and foot comfort products. The Home Appliances division markets and distributes large appliances such as ovens, cooktops, washing machines and dishwashers.

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

(C) DIVIDENDS

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

| | \$'000 |
|---|---------------|
| Interim ordinary dividend of 6.0 cents per fully paid ordinary share paid on 23 March 2017 (fully franked) | 6,209 |
| Final ordinary dividend of 2.0 cents per fully paid ordinary share declared by Directors (fully franked) and payable on 20 October 2017 but not recognised as a liability at year end | 2,079 |
| Total dividends in respect of the year | 8,288 |

The 2016 final ordinary dividend of \$2,066,000 (2.0 cents per fully paid ordinary share) referred to in the Directors' Report dated 22 August 2016 was paid on 8 November 2016.

(D) CONSOLIDATED RESULTS

The consolidated loss after tax of the Group for the year ended 30 June 2017 was \$9,073,000 (2016: profit after tax of \$11,001,000). The current year loss after tax is inclusive of significant items amounting to a net expense after tax of \$22,740,000 (2016: net expense after tax of \$2,437,000). Refer to Note 5(b) significant items for further information.

Excluding significant items, the consolidated profit after tax for the year ended 30 June 2017 was \$13,667,000 (2016: \$13,438,000).

(E) REVIEW OF OPERATIONS

The review of operations of the Group is contained in the Chairman's Report on page 4 and the Review of Operations on pages 8 to 13 of the Annual Report and forms part of this Directors' Report.

(F) SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

During the financial year, the Group divested 100% of its IMD in Singapore and closed the operations of its IMD business in Australia and New Zealand. The redundancy, stock write down and other costs associated with the closure of the IMD business were recognised as a provision in the FY2016 Financial Statements.

(G) EVENTS SUBSEQUENT TO BALANCE DATE

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2017 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 2017.

(I) INFORMATION ON DIRECTORS

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

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

The interests of Directors in the share capital of the parent entity or in a related entity are contained in the register of Directors' shareholdings of the Company as at the date of this report and are set out on pages 14 to 15 of the Annual Report and form part of this Directors' Report.

MEETING OF DIRECTORS

The number of Board, Audit Risk Management and Compliance, and Nomination and Remuneration Committee meetings held during the year ended 30 June 2017, 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 | 10 | 10 | 4 | 4 | 4 | 4 |
| Laurence McAllister ¹ | 6 | 6 | n/a | n/a | n/a | n/a |
| Amanda M. Lacaze | 10 | 10 | 4 | 4 | n/a | n/a |
| Jane M. McKellar | 10 | 10 | n/a | n/a | 4 | 4 |
| Patricia M. Payn | 10 | 10 | 4 | 4 | 4 | 4 |
| Paul J. Maguire ² | 5 | 5 | n/a | n/a | n/a | n/a |

1 Mr McAllister was appointed as Managing Director on 21 November 2016.

2 Mr Maguire retired as Managing Director on 21 November 2016.

(J) COMPANY SECRETARIES

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

DIRECTORS' REPORT CONTINUED

(K) REMUNERATION REPORT

LETTER FROM THE CHAIRMAN OF THE BOARD'S NOMINATION AND REMUNERATION COMMITTEE

On behalf of your Board, I am pleased to present McPherson's 2017 Remuneration Report.

Underlying business performance, from continuing operations, during FY17 has been strong, with growth in underlying profit before tax of 14.6% from \$17.1 million¹ in FY16 to \$19.6 million in FY17, despite the significant adverse impact of the Group's hedged AUD/USD position in FY17 relative to FY16 (the FY16 underlying amounts have been amended from those disclosed last year so as to exclude \$1.8 million of Housewares JV profit, given this aspect of the Group's operations is not continuing). In addition, a solid operating cash conversion of 113% translated into a reduction in net debt from \$50 million at the start of the year to \$36 million at the conclusion of FY17.

The positive FY17 outcomes were achieved primarily through implementation of the Group's strategies which included:

- A focus on fewer, bigger and better brands within the Health, Wellness and Beauty (HW&B) categories, resulting in revenue growth for the Group's owned brands and a broad based improvement in contribution margins; and
- A focus on improved working capital efficiency that has led to the significant reduction in net debt.

The successful execution of these key strategies by the Group's key management personnel (KMP) has resulted in a 58% increase in total shareholder return in FY17. The key performance objectives of the KMP and broader senior executive team, led by Mr. Laurence McAllister who was appointed Managing Director in November 2016, reflected the strategies adopted by the Board. As their short term performance objectives in FY17 have been achieved, the Group's KMP qualified for 100% of their maximum potential short term incentives (STI) in FY17. In addition, as most of the senior executive team's objectives were achieved the majority of those executives also received their maximum STI opportunity. Mr. McAllister's STI outcome for FY17 was pro-rated to reflect his appointment occurring after the commencement of the financial year.

The Board's Nomination and Remuneration Committee has continued to review the Group's remuneration strategy, to ensure that remuneration structures and levels are appropriate and in keeping with current market practices, and to examine potential improvements which might further strengthen the alignment between executive remuneration and shareholder outcomes. This review has resulted in the Nomination and Remuneration Committee determining the following in relation to the Group's long term incentive (LTI) plan:

- The vesting condition applicable to the Managing Director's 'high level' Performance Rights and senior executives' Performance Rights to be issued in September 2017 will continue to be measured on the underlying EPS compound average growth rate (EPS CAGR) over a three year period, however the basis and proportion of rights that vest will be changed as follows:
 - From: 3% EPS CAGR (0% vesting) to 8% EPS CAGR (100% vesting);
 - To: 5% EPS CAGR (0% vesting) to 10% EPS CAGR (100% vesting);thereby requiring an improved outcome for shareholders to be achieved before rights vest than was the case previously.
- The vesting condition for the Managing Director's 'exceptional level' Performance Rights to be granted in September 2017 will continue to reflect the same challenging vesting hurdle as those granted in 2016. Namely, a 15% per annum increase in total shareholder return over a four year performance period measured on a compounded basis (TSR CAGR) is required for any rights to vest. Where the 15% threshold is achieved, 25% of the 'exceptional level' rights will vest, with vesting calculated on a straight line basis and 100% vesting resulting at a TSR CAGR of 25%. This represents a more difficult hurdle than the minimum 10% per annum TSR CAGR threshold approved by shareholders last year.

A further outcome of the remuneration review has been to apply a modest 2% average increase in line with inflation, in base remuneration to most categories of staff for FY18, but to leave the base remuneration for the Managing Director and senior executives unchanged from FY17.

Ongoing engagement with shareholders and external stakeholders remains a high priority for your Board and is a critical element in determining our approach to remuneration. Over the last 12 months this engagement process continued, and Board members met with a range of institutional shareholders and advisory firms.

Overall feedback from these meetings endorsed McPherson's remuneration strategy.

McPherson's Nomination and Remuneration Committee and Board are committed to ensuring that rewards for performance are competitive and appropriate, conform with market practice and have objectives that are aligned with the creation of value for shareholders. Consistent with this, further relevant external benchmarking of all elements of senior executives' remuneration will be undertaken ahead of the following year's remuneration composition and levels being considered and determined.

Thank you for taking the time to review the 2017 Remuneration Report.

Yours sincerely

Jane McKellar

Chairman – Nomination and Remuneration Committee

¹ The FY2016 underlying amounts shown for EBIT, profit before tax, profit after tax and EPS outcomes have each been amended from those disclosed last year so as to exclude \$1.8 million of Housewares JV profit, given this aspect of the Company's operations is not continuing.

The McPherson's Limited 2017 remuneration report sets out key aspects of the Group's remuneration policy and framework, and provides details of the remuneration awarded to the Group's non-executive Directors, Managing Director and other key management personnel.

The remuneration report contains the following sections:

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

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

KEY MANAGEMENT PERSONNEL COVERED IN THIS REPORT

Directors

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

Chairman (Non-executive)

G.A. Cubbin

Executive Directors

L. McAllister – Managing Director (appointed 21 November 2016)

P.J. Maguire – Managing Director (resigned 21 November 2016)

Non-executive Directors

A.M. Lacaze

J.M. McKellar

P.M. Payn

Other key management personnel

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

| NAME | POSITION |
|---------------|--|
| P. Witheridge | Chief Financial Officer and Company Secretary |
| S.K.S. Chan | Managing Director, McPherson's Hong Kong Limited |
| S.R. Rorie | Chief Executive Officer, Home Appliances Pty Ltd (resigned 31 December 2016) |

CHANGES SINCE THE END OF THE REPORTING PERIOD

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

DIRECTORS' REPORT CONTINUED

(K) REMUNERATION REPORT CONTINUED

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for the delivery of rewards. The Board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

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

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

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

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

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

| | 2017 | 2016 | 2015 | 2014 ¹ | 2013 |
|--|------------------|--------|--------|-------------------|------------------|
| Statutory (loss)/profit after tax for the year (\$'000) | (9,073) | 11,001 | 8,840 | (67,039) | (33,319) |
| Profit after tax – excluding significant items (\$'000) | 13,667 | 13,438 | 11,962 | 14,252 | 13,057 |
| Basic (loss)/earnings per share (cents) | (8.8) | 11.1 | 9.2 | (72.4) | (43.2) |
| Basic earnings per share – excluding significant items (cents) | 13.2 | 13.6 | 12.4 | 15.4 | 16.9 |
| Dividends declared for the relevant financial year (\$'000) | 8,288 | 7,926 | 7,748 | 10,412 | 14,652 |
| Dividend payout ratio as a percentage of statutory (loss)/profit (%) | n/m ² | 72.1 | 87.6 | n/m ² | n/m ² |
| Dividend payout ratio as a percentage of profit excluding significant items (%) | 60.6 | 59.0 | 64.8 | 73.1 | 112.2 |
| Increase/(decrease) in period end share price (%) | 48.6 | 54.9 | (48.4) | (13.1) | (21.3) |
| Total KMP incentives as percentage of statutory (loss)/profit for the year (%) | (5.9) | 0.8 | 4.9 | (0.2) | (0.3) |
| Total KMP incentives as percentage of profit after tax excluding significant items (%) | 3.9 | 0.7 | 3.6 | 0.8 | 0.7 |

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

2 Ratio not considered meaningful due to statutory loss after tax recognised for the year.

USE OF REMUNERATION CONSULTANTS

During the year KPMG was engaged to provide general advice regarding the structure and quantum of Board and Senior Executive Remuneration, including industry benchmarking.

NOMINATION AND REMUNERATION COMMITTEE

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

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

EXECUTIVE REMUNERATION

The executive remuneration and reward framework has three components:

- Base pay, including superannuation and benefits;
- Short-term performance incentives; and
- Long-term incentives.

The Remuneration Framework is summarised in the following table:

| ELEMENT | PURPOSE | PERFORMANCE METRICS | POTENTIAL VALUE | CHANGES FOR FY17 |
|-----------------------|--|---|---|--|
| Base Pay and Benefits | 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 competitive. Increases are not guaranteed in the executive's contract. |
| STI | Reward for current year performance. | Group or divisional earnings before interest and tax (EBIT) together with pre-determined significant role specific objectives. | Maximum 50% of Total Remuneration Package. | None |
| LTI | Alignment to long-term shareholder returns via Performance Rights plan. Participants benefit from the vesting of Performance Rights if performance objectives are met. | Compound annual growth in earnings per share and, in the case of the Managing Director's Exceptional Performance Rights, total shareholder returns. | Managing Director – \$1 million per annum. Other senior executives – 20% of the base package amount. | As approved at the 21 November 2016 AGM, the Managing Director's Performance Rights have been updated as outlined on page 37. |

Base pay including superannuation and benefits

Base pay is structured as a package amount which may be delivered as cash, prescribed non-cash financial benefits including motor vehicles and superannuation contributions at the executive's discretion. Base pay is reviewed annually to reflect increases in responsibility and to ensure that the executive's pay is competitive in the market for a comparable role. There are no guaranteed base pay increases included in any senior executives' contracts.

Short-term performance incentives (STI)

Short-term incentives in the form of cash bonuses are available to senior executives providing the operating division or business most closely aligned with the executive's area or areas of responsibility, achieve or exceed pre-determined profit targets or significant specific outcomes. This ensures that variable reward is available when value has been created for shareholders and when profit and other targets are consistent with or exceed the business plan. For senior executives the maximum target bonus opportunity is usually 50% of the base package amount.

Each year the Nomination and Remuneration Committee considers the appropriate targets and key performance indicators together with the level of payout if targets are met or exceeded. The 2017 STI targets for senior executives, with the exception of the new Managing Director, were primarily based on Group and divisional earnings before interest and tax (EBIT) outcomes for the financial year, excluding significant, non-recurring items and adjusted for actual funds employed outcomes compared with budget. During the current year the new Managing Director, Mr L. McAllister was employed from 1 November 2016, consequently his pro rata STI for the 8 months ended 30 June 2017 has been assessed on achievement of various pre-determined objectives.

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 August following the end of the financial year to which the incentive relates. Based on the Group's profit performance in the current year and the achievement of pre-determined objectives, the Nomination and Remuneration committee has determined that the Managing Director, Chief Financial Officer and the Managing Director Hong Kong are eligible for a cash bonus relating to the current year.

From time-to-time additional short-term cash bonuses are paid to senior executives in relation to the achievement of specific outcomes associated with certain significant events. Examples of such events may include, among others, achieving a required divestment outcome, 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.

DIRECTORS' REPORT CONTINUED

(K) REMUNERATION REPORT CONTINUED

EXECUTIVE REMUNERATION (CONTINUED)

Short-term performance incentives (STI) (continued)

Subject to the discretion of the Nomination and Remuneration Committee, the maximum likely short-term incentive payable to a senior executive in future years is 50% of the executive's base salary package amount. The minimum payable would be zero in cases where the specified performance targets are not achieved.

FY17 Specific short term performance metrics for each KMP are summarised in the table below:

| KMP | METRIC | POTENTIAL STI OUTCOMES | FY 2017 OUTCOMES |
|---|---|--|--|
| Managing Director | As disclosed in the table "Summary of KMP Remuneration and KPI Objectives" on page 34. | Pro rata to maximum 50% of total remuneration package dependent on achievement of pre-determined objectives. | \$232,055* * Has been determined on a pro rata basis from 1 November 16 to 30 June 17. |
| Chief Financial Officer (and Company Secretary) | <90% adjusted budgeted EBIT with reference to Health & Beauty and Household & Personal Care EBIT | Nil Payment | \$182,825 The amount being the maximum outcome (50% of the total remuneration package). |
| | Between 90% and 110% of adjusted budgeted EBIT with reference to Health & Beauty and Household & Personal Care EBIT | Pro rata to maximum 50% of total remuneration package | |
| | 110% and above adjusted budgeted EBIT with reference to Health & Beauty and Household & Personal Care EBIT | Maximum being 50% of total remuneration package | |
| Managing Director, Hong Kong | <90% adjusted budgeted EBIT with reference to Health & Beauty and Household & Personal Care EBIT | Nil Payment | HK \$723,896/AUD \$123,555 The amount being the maximum outcome (50% of the remuneration package paid by the Group, noting that 50% is paid by a separate entity to which he provides services, being European Quality Housewares Limited). |
| | Between 90% and 110% of adjusted budgeted EBIT with reference to Health & Beauty and Household & Personal Care EBIT | Pro rata to maximum 50% of total remuneration package | |
| | 110% and above adjusted budgeted EBIT with reference to Health & Beauty and Household & Personal Care EBIT | Maximum Payment being 50% of total remuneration package | |

Long-term incentives (LTI)

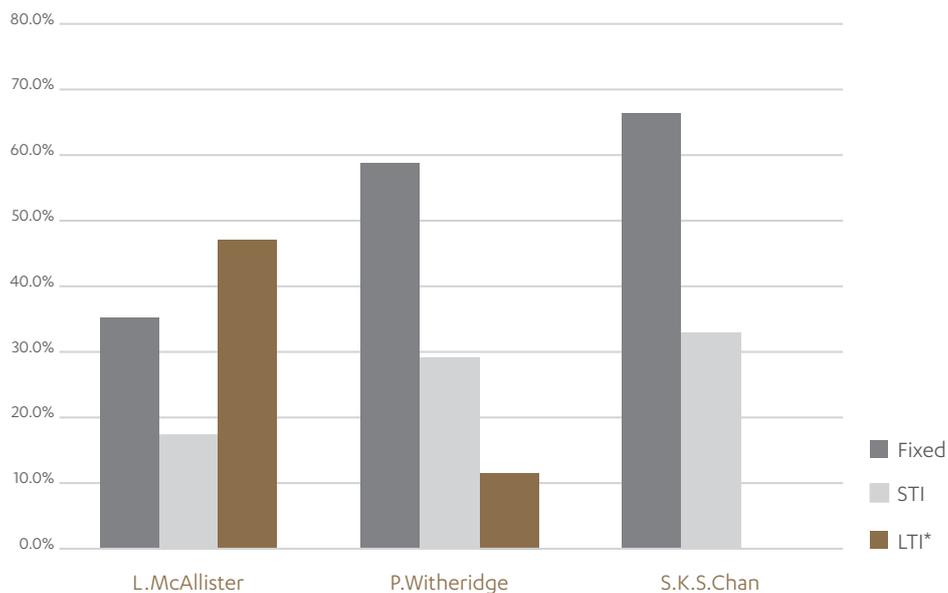
Long-term incentives are provided to executives to focus them on delivering long-term shareholder returns. During the current year the Group continued with its Performance Rights plan (The McPherson's Limited Employee Performance Rights Plan) to provide long-term incentives to executives. Under this plan, participants are granted Performance Rights which only vest if certain performance conditions (relating to compound annual growth in earnings per share – refer to page 37 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 is 20% of the base package amount.

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

- the merger or consolidation of the Group into another entity;
- if a takeover bid is made in respect of the Group and the Board recommends acceptance to shareholders;
- if a scheme of arrangement is made or undertaken in respect of the Group, and the Board in its absolute discretion determines exercise to be appropriate;
- any event similar to those described in Rules 8.4(a) to 8.4(c) 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 37.

The graph below shows the structure of the FY18 remuneration opportunity mix for KMP.



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

VOTING AND COMMENTS MADE AT THE COMPANY'S 2016 ANNUAL GENERAL MEETING

Of the total votes cast in relation to the adoption of the 2016 remuneration report by shareholders present at the AGM and by proxy, 89.5% voted in favour of the resolution. A number of general questions relating to remuneration and the 2016 remuneration report were asked by shareholders at the 2016 AGM, which were appropriately responded to by the Chairman and other non-executive directors at the meeting.

DIRECTORS' REPORT CONTINUED

(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.

| 2017 | SHORT-TERM BENEFITS | | | | POST- EMPLOYMENT BENEFITS | LONG-TERM BENEFITS | SHARE- BASED PAYMENTS | | TOTAL \$ |
|---|---|----------------------------------|---|------------------------------------|---------------------------------|---------------------------------|----------------------------------|------------------|-------------|
| | CASH SALARY & FEES ¹ \$ | CASH BONUS ² \$ | NON- MONETARY BENEFITS ³ \$ | TERMIN- ATION BENEFITS \$ | SUPER- ANNUATION \$ | LONG- SERVICE LEAVE \$ | PERFOR- MANCE RIGHTS \$ | | |
| Directors of McPherson's Limited | | | | | | | | | |
| G.A. Cubbin (Chairman) | 136,588 | – | – | – | 12,976 | – | – | 149,564 | |
| L. McAllister (Managing Director) ⁴ | 470,134 | 232,055 | 13,636 | – | 20,000 | 7,951 | 138,454 | 882,230 | |
| P.J. Maguire (Managing Director) ⁵ | 258,832 | – | 26,826 | 556,055 | 9,776 | (6,610) | 79,367 | 924,246 | |
| A.M. Lacaze ⁶ | 74,304 | – | – | – | – | – | – | 74,304 | |
| J.M. McKellar | 73,710 | – | – | – | 11,251 | – | – | 84,961 | |
| P.M. Payn | 77,590 | – | – | – | 7,371 | – | – | 84,961 | |
| Total Directors' Remuneration 2017 | 1,091,158 | 232,055 | 40,462 | 556,055 | 61,374 | 1,341 | 217,821 | 2,200,266 | |
| Other Group Key Management Personnel | | | | | | | | | |
| S.K.S. Chan ⁷ | 466,914 | 123,555 | – | – | 41,945 | – | – | 632,414 | |
| P. Witheridge | 319,047 | 182,825 | 15,952 | – | 34,996 | 17,287 | 33,409 | 603,516 | |
| S.R. Rorie (resigned 31 December 2016) | 213,542 | – | – | – | 15,000 | – | (18,202) | 210,340 | |
| Total Other Key Management Personnel Remuneration 2017 | 999,503 | 306,380 | 15,952 | – | 91,941 | 17,287 | 15,207 | 1,446,270 | |
| Total Remuneration 2017 – Group | 2,090,661 | 538,435 | 56,414 | 556,055 | 153,315 | 18,628 | 233,028 | 3,646,536 | |

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 34 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 Mr McAllister was appointed Managing Director on 21 November 2016.

5 Mr Maguire resigned as Managing Director on 21 November 2016.

6 From 1 June 2016, A.M. Lacaze fees are paid via a related party, Morgan Consulting Pty Ltd. Refer to the Related Party note for further details.

7 50% of S.K.S Chan's remuneration, with the exception of the cash bonus, is recovered from a separate entity to which he provides services, being European Quality Housewares Limited.

| 2016 NAME | SHORT-TERM BENEFITS | | | POST-EMPLOYMENT BENEFITS | LONG-TERM BENEFITS | SHARE-BASED PAYMENTS | TOTAL |
|---|---------------------------------|-------------------------|------------------------------------|--------------------------|--------------------|----------------------|------------------|
| | CASH SALARY & FEES ¹ | CASH BONUS ² | NON-MONETARY BENEFITS ³ | SUPER-ANNUATION | LONG-SERVICE LEAVE | PERFORMANCE RIGHTS | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Directors of McPherson's Limited | | | | | | | |
| G.A. Cubbin (Chairman) | 137,848 | – | – | 13,096 | – | – | 150,944 |
| P.J. Maguire (Managing Director) | 491,073 | 59,000 | 30,247 | 35,000 | 27,071 | 5,044 | 647,435 |
| A.M. Lacaze ⁴ | 74,304 | – | – | 7,059 | – | – | 81,363 |
| J.M. McKellar | 74,034 | – | – | 10,927 | – | – | 84,961 |
| P.M. Payn ⁵ | 55,286 | – | – | 5,252 | – | – | 60,538 |
| Total Directors' Remuneration 2016 | 832,545 | 59,000 | 30,247 | 71,334 | 27,071 | 5,044 | 1,025,241 |
| Other Group Key Management Personnel | | | | | | | |
| S.K.S. Chan ⁶ | 496,218 | – | – | 45,148 | – | – | 541,366 |
| P. Witheridge | 316,654 | 35,500 | – | 37,083 | 9,944 | 1,222 | 400,403 |
| S.R. Rorie ⁷ | 422,122 | – | – | 30,000 | 1,578 | 18,133 | 471,833 |
| Total Other Key Management Personnel Remuneration 2016 | 1,234,994 | 35,500 | – | 112,231 | 11,522 | 19,355 | 1,413,602 |
| Total Remuneration 2016 – Group | 2,067,539 | 94,500 | 30,247 | 183,565 | 38,593 | 24,399 | 2,438,843 |

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 34 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 From 1 June 2016, A.M. Lacaze fees are paid via a related party, Morgan Consulting Pty Ltd. Refer to the Related Party, Note 33 for further details.

5 P.M. Payn was appointed as a Non-Executive Director on 12 October 2015. Ms Payn was appointed as a member of the Nomination & Remuneration Committee and a member of the Audit Risk Management & Compliance Committee on 29 October 2015, and was appointed Chairman of the Audit Risk Management & Compliance Committee on 18 November 2015.

6 50% of S.K.S Chan's remuneration, with the exception of the cash bonus, is recovered from a separate entity to which he provides services, being European Quality Housewares Limited.

7 S.R. Rorie as the Chief Executive Officer of Home Appliances Pty Ltd is deemed a KMP since his appointment on 1 July 2015.

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

RELATIVE PROPORTIONS OF REMUNERATION

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

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

| NAME | FIXED REMUNERATION | | AT RISK – STI | | AT RISK – LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Executive Director of McPherson's | | | | | | |
| L. McAllister | 58% | – | 26% | – | 16% | – |
| P.J. Maguire | 91% | 90% | 0% | 9% | 9% | 1% |
| Other key management personnel of the Group | | | | | | |
| S.K.S. Chan | 80% | 100% | 20% | – | – | – |
| P. Witheridge | 64% | 91% | 30% | 9% | 6% | – |
| S.R. Rorie | 109% | 96% | – | – | -9% | 4% |

DIRECTORS' REPORT CONTINUED

(K) REMUNERATION REPORT CONTINUED

PERFORMANCE BASED REMUNERATION GRANTED AND FORFEITED DURING THE YEAR

The following table shows for each KMP how much of their 2017 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 OPPOR- TUNITY \$ | AWARDED AS % OF TARGET OPPOR- TUNITY | FORFEITED % | VALUE GRANTED \$ | VALUE EXERCISED \$ | VALUE FORFEITED \$ |
| Executive Director of McPherson's | | | | | | |
| L. McAllister | \$232,055 | 100% | – | 705,881 | – | – |
| P.J. Maguire | – | – | – | – | – | – |
| Other key management personnel of the Group | | | | | | |
| S.K.S. Chan | \$123,555 | 100% | – | – | – | – |
| P. Witheridge | \$182,825 | 100% | – | 56,128 | – | – |
| S.R. Rorie | – | – | – | – | – | 18,202 |

SUMMARY OF KMP REMUNERATION AND KPI OBJECTIVES

| KMP | BASE SALARY | STI | LTI | KPI OBJECTIVES |
|--|--|---|---|---|
| L. McAllister <i>Managing Director</i> | \$700,000 including super \$50,000 motor vehicle allowance | Maximum cash bonus of 50% of base salary, pro rata for the first year | <p>Rights under the Performance Rights plan as follows:</p> <p>Rights granted on commencement of role – Performance Rights with face value of \$300,000 (263,000 rights) contingent on remaining in employment until 1 November 2024;</p> <p>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:</p> <p>(i) High Level Performance Rights (HLPR) – rights with a face value of 50% of base remuneration subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period; and</p> <p>(ii) Exceptional Level Performance Rights (ELPR) – balance of the LTI opportunity will be subject to an absolute “total shareholder return” hurdle of at least 10% per annum, measured on a compound basis over a 4 year performance period.</p> | <p>Achieve a strong second half 2017.</p> <p>Optimise funds employed by improving forecasting process, brand consolidation, SKU rationalisation, international range harmonisation and optimising trading terms.</p> <p>Provide clarity of strategy to the business, employees, shareholders and potential investors.</p> <p>Restructure the business to support strategy and key business drivers.</p> <p>Develop and implement an overseas expansion and profitability strategy.</p> <p>Revitalise existing trademarks by relaunching and rebranding.</p> <p>Retain and grow selective Agency portfolios.</p> <p>Develop a plan to optimise the supply chain.</p> |

| KMP | BASE SALARY | STI | LTI | KPI OBJECTIVES |
|--|-----------------------------|--|---|---|
| P. Witheridge <i>Chief Financial Officer and Company Secretary</i> | \$365,650 including super | Maximum cash bonus of 50% of base salary. | Rights under the Performance Rights Plan equal to 20% of the annual base remuneration package subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period. | Underlying EBIT adjusted for funds employed determined separately for Health and Beauty (75% of STI in relation to EBIT for Health and Beauty) and Household and Personal Care (25% of the STI in relation to EBIT for Household and Personal Care.) Facilitate, engage and increase investor relations. Optimise business structure. Review and execute capital restructure. Improved outcomes from Group IT, including rollout of Group ERP system in Hong Kong. Increased automation of transactional processes and improved support from Finance function. |
| S.K.S. Chan * <i>Managing Director</i> <i>McPherson's Consumer Products (HK) Limited</i> *50% of remuneration, with exception of the cash bonus, is recovered from a separate entity, European Quality Housewares Limited. | HKD 2,919,990 (AUD 498,385) | Maximum cash bonus of 50% of Total Remuneration Package, excluding 50% portion recovered from European Quality Housewares Pty Ltd. | No LTI issued | Underlying EBIT adjusted for funds employed determined separately for Health and Beauty (75% of STI in relation to EBIT for Health and Beauty) and Household and Personal Care (25% of the STI in relation to EBIT for Household and Personal Care.) Optimise working capital. Sourcing initiatives and product cost control and savings. Optimise total product quality. Optimise supplier base. Implementation of IBS computer system in HK. |

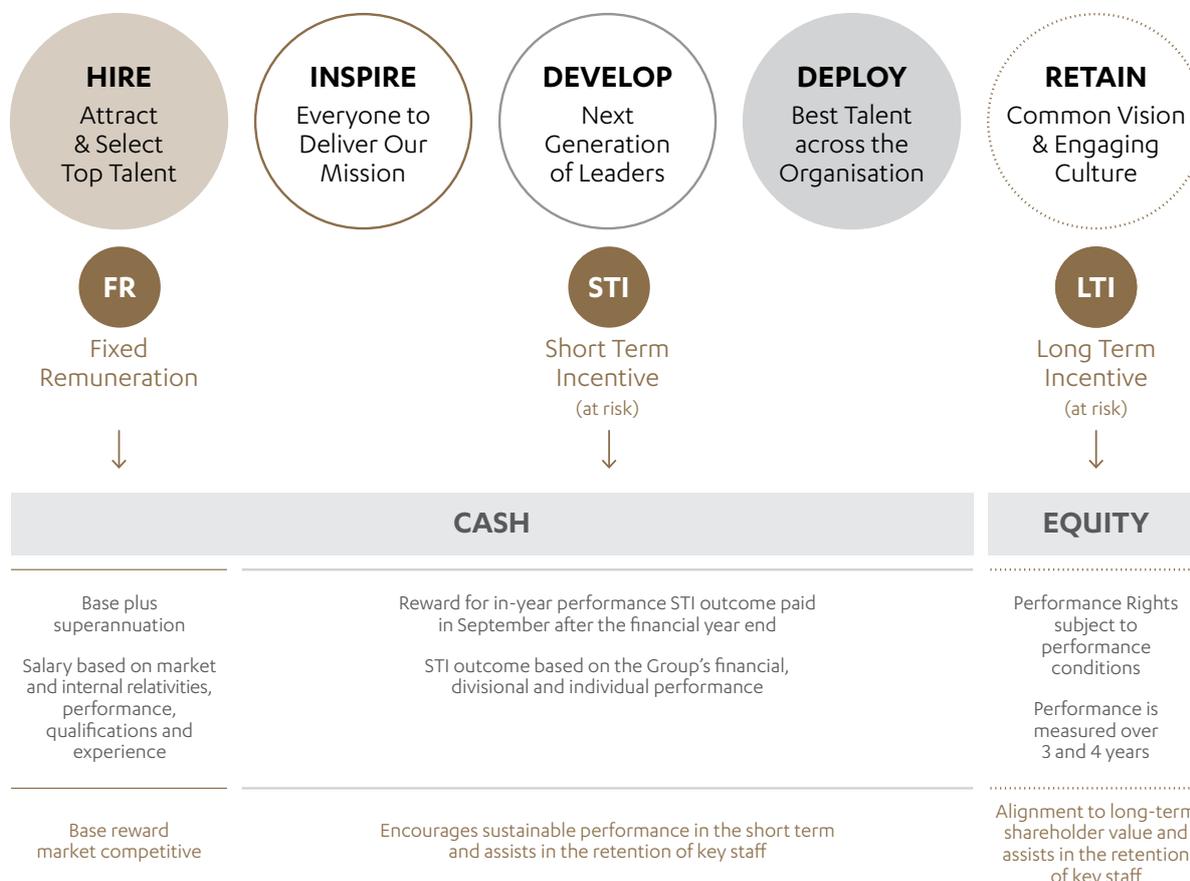
McPherson's has had a year of solid growth in underlying profit before tax and continued, meaningful reduction in its leverage and the remuneration outcomes reflect this. The Group's core strategy for 2017 was to focus on growth and operational excellence. The Group's strategic objective was to deliver bigger, better and fewer brands to drive growth. This focus underpins each of the KPIs for the STI and has been key to McPherson's success, delivering sales and profit growth strategies together with operational excellence strategies.

DIRECTORS' REPORT CONTINUED

(K) REMUNERATION REPORT CONTINUED

REMUNERATION STRUCTURE FOR KEY MANAGEMENT PERSONNEL

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



CONTRACTUAL ARRANGEMENTS FOR EXECUTIVE KMP

Remuneration and other terms of employment for the Managing Director and other KMP 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 | BASE SALARY INCLUDING SUPERANNUATION AND MOTOR VEHICLE BENEFITS ¹ | TERMINATION BENEFIT |
|---|-------------------|--|---|
| L. McAllister Managing Director | On-going | \$750,000 | Contract may be terminated on 6 months' notice by either the Company or executive. |
| P. Witheridge Chief Financial Officer and Company Secretary | On-going | \$365,650 | Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive. |
| S.K.S. Chan² Managing Director McPherson's Consumer Products (HK) Limited | On-going | HKD 2,919,990 (AUD 498,385) | Contract may be terminated on 3 months' notice by either the Company or executive. |

1 Base salaries quoted are for the year ended 30 June 2017; they are reviewed annually by the Nomination and Remuneration Committee.

2 50% of S.K.S. Chan' remuneration, with the exception of the cash bonus, is recovered from a separate entity to which he provides services, being European Quality Housewares Limited.

SHARE-BASED COMPENSATION

Performance Rights

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

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

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

The Commencement Rights granted to the Managing Director will vest providing Mr. McAllister continues to be the Managing Director of the Company until 1 November 2024.

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

The rights will vest proportionately from no rights vesting if the Group's EPS CAGR is 3.0% or less to 100% of rights vesting if the Group's EPS CAGR is 8.0% or higher.

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

| NAME | YEAR OF GRANT | YEARS IN WHICH RIGHTS MAY VEST | NUMBER OF RIGHTS GRANTED | VALUE OF RIGHTS AT GRANT DATE ¹ | NUMBER OF RIGHTS VESTED DURING THE YEAR | VESTED % | NUMBER OF RIGHTS FORFEITED DURING THE YEAR | VALUE AT DATE OF FORFEITURE | FORFEITED % |
|--------------------------------------|---------------|--------------------------------|--------------------------|--|---|----------|--|-----------------------------|-------------|
| L. McAllister | | | | | | | | | |
| Commencement Performance rights | 2017 | 2020 | 263,000 | \$222,235 | – | – | – | n/a | – |
| High Level Performance Rights | 2017 | 2020 | 318,000 | \$270,656 | – | – | – | n/a | – |
| Exceptional Level Performance Rights | 2017 | 2021 | 590,000 | \$212,990 | – | – | – | n/a | – |
| P.J. Maguire | 2014 | 2017 | 96,000 | \$115,776 | – | – | 96,000 | – | 100 |
| | 2015 | 2018 | 196,000 | \$217,952 | – | – | – | n/a | – |
| | 2016 | 2019 | 475,000 | \$237,423 | – | – | – | n/a | – |
| S.K.S. Chan | 2014 | 2017 | 25,500 | \$30,753 | – | – | 25,500 | – | 100 |
| P. Witheridge | 2014 | 2017 | 23,000 | \$27,738 | – | – | 23,000 | – | 100 |
| | 2015 | 2018 | 47,000 | \$52,264 | – | – | – | n/a | – |
| | 2016 | 2019 | 114,000 | \$56,981 | – | – | – | n/a | – |
| | 2017 | 2020 | 64,000 | \$56,128 | – | – | – | n/a | – |
| S.R. Rorie | 2016 | 2019 | 141,000 | \$70,478 | – | – | 141,000 | – | 100 |

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

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

Commencement & High Level Performance Rights – have been independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the commencement date of 21 November 2016 less the present value of expected dividends forgone prior to vesting.

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

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

DIRECTORS' REPORT CONTINUED

(K) REMUNERATION REPORT CONTINUED

SHARE-BASED COMPENSATION (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. 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 COMPEN- SATION | 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 |
| High Level Performance Rights | – | 318,000 | – | – | 318,000 | – | 318,000 |
| Exceptional Level Performance Rights | – | 590,000 | – | – | 590,000 | – | 590,000 |
| P.J. Maguire | | | | | | | |
| Performance Rights | 767,000 | – | – | (96,000) | 671,000 | – | 671,000 |
| S.K.S. Chan | | | | | | | |
| Performance Rights | 25,500 | – | – | (25,500) | – | – | – |
| P. Witheridge | | | | | | | |
| Performance Rights | 184,000 | 64,000 | – | (23,000) | 225,000 | – | 225,000 |
| S.R. Rorie | | | | | | | |
| Performance Rights | 141,000 | – | – | (141,000) | – | – | – |

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 | 110,000 | 40,000 | 150,000 |
| L. McAllister | – | – | – |
| P.J. Maguire – (resigned 21 November 2016) | 2,433,143 | (2,433,143) | – |
| P.M. Payn | – | 43,554 | 43,554 |
| A.M. Lacaze | 18,642 | 20,000 | 38,642 |
| J.M. McKellar | – | – | – |
| Other key management personnel | | | |
| S.K.S. Chan | – | – | – |
| P. Witheridge | 85,274 | 2,726 | 88,000 |

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

Employee share schemes

The Group does not currently operate an employee share scheme.

NON-EXECUTIVE DIRECTORS

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Remuneration of non-executive Directors is determined by the Board within an aggregate non-executive Directors' fee pool limit which is periodically recommended for approval by the shareholders. The aggregate was last considered by shareholders at the Annual General Meeting in 2010 when a total remuneration of \$550,000 inclusive of superannuation was approved. Including superannuation guarantee contributions made on their behalf by the Company, non-executive Director remuneration for the year ended 30 June 2017 totalled \$393,790 (2016: \$377,805).

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

The current base remuneration of individual non-executive Directors was last reviewed by the Nomination and Remuneration Committee on 21 September 2015, at which time non-executive Director fees remained the same as the prior financial year. The Chairman and other non-executive Directors receive additional fees for their membership of the Board's Audit Risk Management and Compliance Committee. 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 2017 and continue to apply at the date of this report:

FROM 1 JULY 2016

| Base fees | |
|---|-----------|
| Chairman | \$131,130 |
| Other non-executive Directors | \$68,845 |
| Additional fees | |
| Audit Risk Management & Compliance Committee – Chairman | \$8,745 |
| Audit Risk Management & Compliance Committee – Member | \$5,460 |
| Nomination & Remuneration Committee – Chairman | \$8,745 |

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

ADDITIONAL INFORMATION

Loans to Directors and Executives

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

Other transactions with Directors and Executives

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

There were no transactions between the Group and the Directors of McPherson's Limited or with any KMP of the Group, including their personally-related entities, during the current or previous financial year other than those disclosed above, and relating to remuneration and to transactions concerning options and shares.

(L) SHARES UNDER OPTION

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

SHARES ISSUED ON THE EXERCISE OF OPTIONS

No ordinary shares of McPherson's Limited were issued during the year ended 30 June 2017 (2016: Nil), or since that date, under the McPherson's Limited Employee Share/Option Purchase Plan as no options were exercised. There are no options outstanding at the date of this report.

(M) INDEMNIFICATION AND INSURANCE OF OFFICERS

The Group has agreed to indemnify the current Directors and certain current executives of the Group against all liabilities to another person (other than the Group or a related body corporate) that may arise from their position as Directors or officers of the Group, to the extent permitted by law. The agreement stipulates that the Group will meet the full amount of any such liabilities, including costs and expenses.

During the financial year, McPherson's Limited paid a premium to insure Directors and certain officers of the Group. The Directors and officers covered by the insurance policy include the current Directors and Secretaries of McPherson's Limited, Directors or Secretaries of controlled entities who are not or were not also Directors or Secretaries of McPherson's Limited, senior management of the Group and senior management of divisions and controlled entities of McPherson's Limited. As the insurance policy operates on a claims made basis, former Directors and officers of the Group are also covered.

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

DIRECTORS' REPORT CONTINUED

(N) ENVIRONMENTAL REGULATION

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

(O) PROCEEDINGS ON BEHALF OF THE GROUP

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

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

(P) NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

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

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

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

| | CONSOLIDATED | |
|--|---------------|------------|
| | 2017 \$ | 2016 \$ |
| Other services | | |
| PricewaterhouseCoopers Australian firm: | | |
| AASB 9 Advisory | 10,500 | – |
| Tax advice relating to employee Performance Rights plan | 3,400 | 2,000 |
| Consulting services associated with due diligence review | 76,795 | 103,049 |
| Dispute support services | – | 28,013 |
| Total remuneration for other services | 90,695 | 133,062 |
| Total remuneration for non-audit services | 90,695 | 133,062 |

(Q) ROUNDING

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

(R) AUDIT RISK MANAGEMENT AND COMPLIANCE COMMITTEE

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

- P.M. Payn (Chairman)
- G.A. Cubbin
- A.M. Lacaze

(S) AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence as required under section 307C of the *Corporations Act 2001* is set out on page 42.

Signed in accordance with a resolution of the Directors.

Dated at Sydney this 22nd day of August 2017.



G.A. Cubbin
Director



L. McAllister
Director

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2017, 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 black ink that reads 'S.T. Maher'.

Shannon Maher
Partner
PricewaterhouseCoopers

Sydney
22 August 2017

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DIRECTORS' DECLARATION

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

- (a) the financial statements and notes as set out on pages 50 to 94 and the remuneration report on pages 26 to 39 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 2017 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) the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 34 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 34.

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

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

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

Dated at Sydney this 22nd day of August 2017.



G.A. Cubbin
Director



L. McAllister
Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MCPHERSON'S LIMITED



Independent auditor's report

To the shareholders 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 2017 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 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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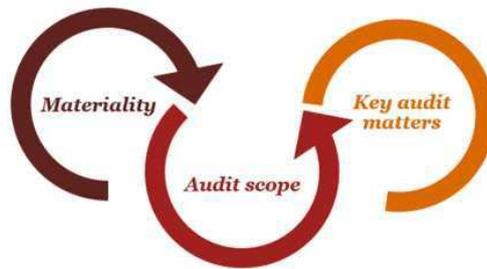
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Our audit approach

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 \$0.82 million, which represents approximately 5% of the Group's adjusted profit before tax. Adjustments have been made for impairments as they are unusual or infrequently occurring items impacting profit and loss. 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 because, in our view, it is | <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 Australia and Home Appliances Pty Limited. We performed specific audit procedures on the remaining operations and other account balances to obtain sufficient appropriate audit evidence to express an opinion on the Group Financial Report as a whole. | <ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk 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. |

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MCPHERSON'S LIMITED



the metric 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.

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 \$28m) and brand names (carrying value of \$62.4m) (Refer to note 1 and 16)</p> <p>The transformation of the Group's business and the present challenges in the trading environment, such as increasing costs driven by the weak Australian dollar and customer demand, provide uncertainty and require significant judgement in relation to the future cash flows. This has an impact on the value in use and the possibility of impairment of the intangible assets is an area of focus for management.</p> <p>In the current year an impairment charge of \$7.0m was recognised in respect of the goodwill in the HAPL CGU and \$2.7m in the NZ CGU. An impairment charge of \$6.9m and \$5.0m was recognised in respect of the brand names for the McPherson's Consumer Products and Home Appliances businesses respectively.</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 forecast; | <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 FY17 actuals to FY18 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

How our audit addressed the key audit matter

- short-term and long-term growth rates; and
- the discount rate

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

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

Provision for slow moving and obsolete inventory (\$59.4m)
(Refer to note 1 and 12)

The Group has gross inventories of \$63.7m with a provision of \$4.3m for inventory obsolescence/slow moving and discontinued stock. Inventory consists of raw materials, finished goods and stock in transit.

During FY17 there has been a focus on core brands and reduced use of certain categories of inventory. As management measures inventory at the lower of cost and net realisable value, there is risk that the non-core items are sold below cost.

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

We performed the following procedures:

- Identified items at risk based on ageing and compared their latest sales price available to their cost to check items were either sold above cost or provided for.
- Analysed lines where there were significantly slow movements in the past and compared the year end value of these line items to forecasted sales to assess the adequacy of provisioning.
- Assessed post year-end sales and purchase orders to test whether there is significant movement in relation to stocks with more than 12 months forecast excess stock.
- 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 included in the Group's annual report for the year ended 30 June 2017 comprises the Director's Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We expect other information to be made available to us after the date of this auditor's report, including the reports: FY2017 Key Highlights, Chairman's Report, Board of Directors, Category Overview, Corporate Governance, Shareholder Information and the Corporate Directory.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MCPHERSON'S LIMITED



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

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

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. 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 26 to 39 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2017 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 black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'S.T. Maher' in a cursive, flowing script.

Shannon Maher
Partner

Sydney
22 August 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

| | NOTE | 2017 \$'000 | 2016 \$'000 |
|--|-------|----------------|----------------|
| Revenue | | | |
| Sales revenue | 3 | 279,458 | 312,586 |
| Interest | 3 | 46 | 217 |
| Total revenue | | 279,504 | 312,803 |
| Commissions | | – | 66 |
| Gain on sale of joint venture | 14(a) | – | 1,961 |
| Gain on sale of business | 4 | 192 | – |
| Other income | 4 | 413 | 364 |
| Total revenue and other income | | 280,109 | 315,194 |
| Expenses | | | |
| Materials and consumables used | | (160,099) | (179,513) |
| Employee costs | | (43,008) | (45,767) |
| Advertising and promotional | | (18,122) | (21,869) |
| Cartage and freight | | (10,784) | (13,235) |
| Third party warehousing | | (4,736) | (5,884) |
| Rental expenses relating to operating leases | | (5,173) | (5,518) |
| Depreciation | 15(a) | (2,416) | (2,204) |
| Amortisation of other intangibles | 16 | (835) | (599) |
| Restructure costs | | (1,596) | (5,766) |
| Other expenses | | (10,673) | (14,737) |
| Borrowing costs | 5(a) | (5,779) | (7,320) |
| Impairment of intangible assets | 16 | (21,565) | – |
| Share of net profit of associates accounted for using the equity method | | – | 1,825 |
| (Loss)/Profit before income tax | | (4,677) | 14,607 |
| Income tax expense | 8(b) | (4,396) | (3,606) |
| (Loss)/Profit for the year | | (9,073) | 11,001 |
| (Loss)/Profit for the year | | | |
| | | (9,073) | 11,001 |
| Other comprehensive income | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Changes in fair value of cash flow hedges | 25 | 1,280 | (4,802) |
| Exchange differences on translation of foreign operations | 25 | (621) | 1,117 |
| Reclassification of reserves to profit and loss on disposal of joint venture | 25 | – | (87) |
| Income tax (expense)/benefit relating to these items | 8(d) | (380) | 1,435 |
| Other comprehensive income/(loss) for the year | | 279 | (2,337) |
| Total comprehensive (loss)/income for the year | | (8,794) | 8,664 |
| CENTS | | | |
| Basic (loss)/earnings per share | 30 | (8.8) | 11.1 |
| Diluted (loss)/earnings per share | 30 | (8.8) | 11.1 |

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2017

| | NOTE | 2017 \$'000 | 2016 \$'000 |
|--------------------------------------|-------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 10 | 6,584 | 16,490 |
| Trade and other receivables | 11 | 40,221 | 44,842 |
| Inventories | 12 | 59,365 | 59,787 |
| Current tax assets | | 241 | 731 |
| Total current assets | | 106,411 | 121,850 |
| Non-current assets | | | |
| Property, plant and equipment | 15 | 4,928 | 5,843 |
| Intangible assets | 16 | 92,994 | 115,139 |
| Deferred tax assets | 17 | 4,672 | 6,594 |
| Total non-current assets | | 102,594 | 127,576 |
| Total assets | | 209,005 | 249,426 |
| Current liabilities | | | |
| Trade and other payables | 18 | 48,640 | 48,810 |
| Borrowings | 19 | 18,406 | 17,503 |
| Derivative financial instruments | 13 | 2,036 | 3,207 |
| Provisions | 20 | 10,052 | 9,274 |
| Current tax liabilities | | 2,497 | 463 |
| Total current liabilities | | 81,631 | 79,257 |
| Non-current liabilities | | | |
| Borrowings | 21 | 24,600 | 48,886 |
| Derivative financial instruments | 13 | 559 | 1,905 |
| Provisions | 22 | 943 | 1,000 |
| Deferred tax liabilities | 23 | 12,786 | 13,893 |
| Total non-current liabilities | | 38,888 | 65,684 |
| Total liabilities | | 120,519 | 144,941 |
| Net assets | | 88,486 | 104,485 |
| Equity | | | |
| Contributed equity | 24 | 154,790 | 154,042 |
| Reserves | 25(a) | 1,236 | 635 |
| Accumulated losses | 25(b) | (67,540) | (50,192) |
| Total equity | | 88,486 | 104,485 |

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

| | NOTE | CONTRIBUTED EQUITY \$'000 | RESERVES \$'000 | ACCUMULATED LOSSES \$'000 | TOTAL EQUITY \$'000 |
|---|-------|---------------------------------|--------------------|---------------------------------|---------------------------|
| Balance at 1 July 2016 | | 154,042 | 635 | (50,192) | 104,485 |
| (Loss)/Profit for the year | | – | – | (9,073) | (9,073) |
| Other comprehensive income | | – | 279 | – | 279 |
| Total comprehensive income | | – | 279 | (9,073) | (8,794) |
| <i>Transactions with shareholders</i> | | | | | |
| Shares issued, net of transaction costs and tax | 24 | 748 | – | – | 748 |
| Dividends provided for or paid | 6 | – | – | (8,275) | (8,275) |
| Share-based payment transactions with employees | 25(a) | – | 322 | – | 322 |
| Total transactions with shareholders | | 748 | 322 | (8,275) | (7,205) |
| Balance at 30 June 2017 | | 154,790 | 1,236 | (67,540) | 88,486 |

| | NOTE | CONTRIBUTED EQUITY \$'000 | RESERVES \$'000 | ACCUMULATED LOSSES \$'000 | TOTAL EQUITY \$'000 |
|---|-------|---------------------------------|--------------------|---------------------------------|---------------------------|
| Balance at 1 July 2015 | | 149,191 | 2,933 | (53,386) | 98,738 |
| Profit for the year | | – | – | 11,001 | 11,001 |
| Other comprehensive income | | – | (2,337) | – | (2,337) |
| Total comprehensive income | | – | (2,337) | 11,001 | 8,664 |
| <i>Transactions with shareholders</i> | | | | | |
| Shares issued, net of transaction costs and tax | 24 | 4,851 | – | – | 4,851 |
| Dividends provided for or paid | 6 | – | – | (7,807) | (7,807) |
| Share-based payment transactions with employees | 25(a) | – | 39 | – | 39 |
| Total transactions with shareholders | | 4,851 | 39 | (7,807) | (2,917) |
| Balance at 30 June 2016 | | 154,042 | 635 | (50,192) | 104,485 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

| | NOTE | 2017 \$'000 | 2016 \$'000 |
|--|------|------------------|----------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 312,300 | 354,735 |
| Payments to suppliers and employees (inclusive of GST) | | (281,480) | (320,473) |
| Interest received | | 46 | 217 |
| Interest and borrowing costs paid | | (5,249) | (6,533) |
| Income taxes paid | | (1,411) | (3,020) |
| Net cash inflows from operating activities | 35 | 24,206 | 24,926 |
| Cash flows from investing activities | | | |
| Payments for acquisition of business assets | 31 | – | (8,522) |
| Payments for purchase of property, plant and equipment | | (1,549) | (2,953) |
| Payments for purchase of other intangible assets | | (348) | (989) |
| Proceeds from sale of business assets | 5(b) | 483 | 18,310 |
| Proceeds from sale of property, plant and equipment | | 24 | 78 |
| Net cash (outflows)/inflows from investing activities | | (1,390) | 5,924 |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 24 | – | 4,050 |
| Share issue transaction costs | 24 | (5) | (62) |
| Proceeds from borrowings | | 82,404 | 42,783 |
| Repayment of borrowings | | (80,650) | (55,709) |
| Bonds buyback | | (25,850) | (9,977) |
| Interest rate swaps extinguishment | | (969) | – |
| Dividends paid | | (7,522) | (6,944) |
| Net cash outflows from financing activities | | (32,592) | (25,859) |
| Net (decrease)/increase in cash held | | (9,776) | 4,991 |
| Cash at beginning of financial year | | 16,490 | 11,283 |
| Effects of exchange rate changes on cash | | (130) | 216 |
| Cash held at end of financial year | 10 | 6,584 | 16,490 |

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) BASIS OF PREPARATION

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

Compliance with IFRS

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

Historical cost convention

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

New and amended standards

None of the new standards and amendments to standards that were mandatory for the first time for the financial year beginning 1 July 2016 affected any of the amounts recognised in the current period or any prior period. New standards that have been issued but are not yet effective for the financial year beginning 1 July 2016 and have not been early adopted have been considered in Note 1(aa).

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

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

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

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

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

Changes in ownership interests

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

Joint arrangements

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

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

Equity method

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

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

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

(c) SEGMENT REPORTING

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

(d) FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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

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

(e) REVENUE RECOGNITION

Sales revenue

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

Other income

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

(f) INCOME TAX

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) INCOME TAX (CONTINUED)

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

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

Investment Allowances

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

Tax consolidation legislation

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

(g) LEASES

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor substantially retains all such risks and benefits. Where a non-current asset is acquired by means of a finance lease, the lower of the fair value of leased property and the present value of the minimum lease payments is established as a non-current asset at the beginning of the lease term and amortised on a straight-line basis over its expected economic life. A corresponding liability is also established and each lease payment is allocated between the principal component and interest expense.

Operating lease payments (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) BUSINESS COMBINATIONS

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

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

(i) IMPAIRMENT OF ASSETS

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

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

(j) CASH AND CASH EQUIVALENTS

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

(k) TRADE RECEIVABLES

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(l) INVENTORIES

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

(m) NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

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

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

(n) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its financial assets in the following categories, financial assets at fair value through profit or loss; and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. At initial recognition, the Group measures these financial assets at fair value.

Financial assets at fair value through profit or loss

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

Loans and receivables

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(n) INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Impairment

At the end of each reporting period the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

(o) DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

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

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory.

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

When foreign currency options are used to hedge forecast future inventory purchases, the Group only designates the intrinsic value of the option as the hedging instrument. The intrinsic value of the option is accounted for in accordance with the previous paragraph. The time value of the option is recognised within other comprehensive income and in the hedging reserve within equity. The time value of the option is subsequently included within the initial cost of the related inventory. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income, other expenses or finance costs.

(p) FAIR VALUE ESTIMATION

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

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

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

(q) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

(r) INTANGIBLE ASSETS

(i) Goodwill

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

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

(ii) Brand names

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

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

Brand names are tested individually for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired. The recoverable amount of a brand name is determined based on the higher of value-in-use or fair value less costs to sell.

(iii) IT development and software

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

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

(iv) Research and development

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

(s) TRADE AND OTHER PAYABLES

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(t) PROVISIONS

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

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

(u) EMPLOYEE BENEFITS

(i) Short-term obligations

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

(ii) Other long-term employee benefit obligations

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

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Bonus plans

A liability for employee benefits in the form of bonuses is recognised in provisions when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; and
- past practice gives clear evidence of the amount of the obligation.

(iv) Superannuation

Contributions to employee superannuation funds are made by McPherson's Limited and controlled entities. Contributions are recognised as an expense as they become payable.

(v) Termination benefits

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

(vi) Employee benefit on-costs

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

(vii) Share-based payments

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

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

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

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

(v) CONTRIBUTED EQUITY AND DIVIDENDS

(i) Contributed equity

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

(ii) Dividends

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

(w) EARNINGS PER SHARE

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account all dilutive potential ordinary shares arising from the exercise of options outstanding (refer to Note 30).

(x) BORROWINGS AND BORROWING COSTS

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

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

Borrowings are 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 finance costs.

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

Borrowing costs are expensed as incurred.

(y) GOODS AND SERVICES TAX (GST)

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

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

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

(z) ROUNDING OF AMOUNTS

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(aa) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period. The following new standards have been issued but are not yet effective for the financial year beginning 1 July 2016 and have not been early adopted:

AASB15 'Revenue from contracts with customers' (effective from 1 January 2018)

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The Group is currently evaluating the impact of this standard. The evaluation includes identifying contracts with customers, separating performance obligations, reviewing the transaction price of the contract, allocating the transaction price to each of the separate performance obligations and recognising the revenue as each performance obligation is satisfied. The full impact on the Group has not yet been determined.

AASB16 'Leases' (effective from 1 January 2019)

The new standard now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard results in the recognition of almost all leases on the balance sheet and has an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard also provides guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts). The Group is evaluating the impact of this standard and is currently reviewing all leases.

(ab) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, McPherson's Limited, disclosed in Note 37 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

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

(ac) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Estimated recoverable amount of goodwill and indefinite lived brand names

The Group tests goodwill and indefinite lived brand names annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. In calculating the recoverable amount of these assets the use of assumptions is required. Refer to Note 16 for details of these assumptions.

Estimated carrying value of provision for contingent consideration

A number of the Group's recent business and asset acquisitions have included a contingent consideration arrangement whereby the Group may be required to pay the vendors a variable amount of money depending on the performance of the acquired business or brand over a set period post acquisition. In accordance with Australian Accounting Standards, management is required to estimate how much of the contingent consideration it is expecting to pay in the future. Refer to Note 31 for further details.

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

In accordance with Australian Accounting Standards, the final amount received by the Group upon sale of its remaining shares of the Housewares Group in the form of the put/call option was initially estimated in the year ended 30 June 2015. The actual amounts received by the Group in the year ended 30 June 2016 differed to what has been estimated. Refer to Note 14(a) for further details.

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.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to financial risks such as currency risk, interest rate risk, credit risk and liquidity risk. In order to minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange and interest rate hedge contracts are used to hedge certain risk exposures. Derivatives are used exclusively for hedging purposes and not as trading or other speculative instruments.

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

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

Foreign exchange risk

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

Interest rate risk

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

The Group holds the following financial instruments:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Financial assets | | |
| Cash and cash equivalents (Note 10) | 6,584 | 16,490 |
| Trade and other receivables (Note 11) | 40,221 | 44,842 |
| | 46,805 | 61,332 |
| Financial liabilities | | |
| Trade and other payables (Note 18) | 48,640 | 48,810 |
| Borrowings (Notes 19 and 21) | 43,006 | 66,389 |
| Derivative financial instruments (Note 13) | 2,595 | 5,112 |
| | 94,241 | 120,311 |

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

(a) FOREIGN EXCHANGE RISK

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

The Board's risk management policy is to hedge 100% of anticipated cash flows (mainly inventory purchases) in United States dollars for twelve months subsequent, subject to a review of the cost of implementing each hedge. At balance date 100% (2016: 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 2017 was 0.7316 (2016: 0.7069).

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

| | \$'000 | | | | | | | |
|---|--------|-----|-------|-----|-----|-------|-------|-----|
| | USD | NZD | Euro | GBP | RMB | HKD | AUD | SNG |
| 30 June 2017 – Group | | | | | | | | |
| Trade receivables | 220 | 26 | – | 41 | 165 | – | 986 | – |
| Trade payables | 328 | 3 | 200 | 122 | 19 | 2,082 | 360 | – |
| Forward foreign exchange contracts | | | | | | | | |
| – buy foreign currency | 45,039 | – | 6,348 | – | – | – | – | – |
| Foreign currency options – buy foreign currency | 39,642 | – | – | – | – | – | – | – |
| 30 June 2016 – Group | | | | | | | | |
| Trade receivables | 203 | – | – | 22 | 157 | – | 1,793 | – |
| Trade payables | 3,121 | 26 | 210 | 492 | 20 | 19 | 725 | – |
| Forward foreign exchange contracts | | | | | | | | |
| – buy foreign currency | 56,014 | – | 8,368 | – | – | – | 634 | 685 |
| Foreign currency options – buy foreign currency | 45,275 | – | – | – | – | – | – | – |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. FINANCIAL RISK MANAGEMENT CONTINUED

(a) FOREIGN EXCHANGE RISK (CONTINUED)

Group Sensitivity

Based on the financial instruments held at 30 June 2017, 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 \$1,557,134 higher/\$1,966,615 lower (2016: \$2,373,985 higher/\$2,186,560 lower), arising from forward foreign exchange contracts and foreign currency options designated as cash flow hedges. The Group's exposure to unhedged amounts is not material.

(b) INTEREST RATE RISK

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

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

At 30 June 2017, \$30,406,000 of the Group's debt is at fixed rates. This is comprised of \$15,000,000 of fixed rate bonds, \$15,000,000 of floating-to-fixed interest rate swaps and \$406,000 of other fixed rate borrowings. The remainder of the Group's debt is at variable rates.

At 30 June 2017, the Group holds two separate \$7,500,000 floating-to-fixed interest rate swaps for a combined value of \$15,000,000. The swaps mature in May 2020. The contracts partially restrict the Group's interest rate exposure to 4.1% (excluding the Group's credit margin) for \$10,000,000 of the Group's variable rate debt and \$18,000,000 secured working capital loan over this period. Swap contracts are settled on a quarterly basis and compare with the 90 day Bank Bill Swap Reference Rate (BBSW).

| | WEIGHTED AVERAGE INTEREST RATE ¹ | BALANCE \$'000 | % OF TOTAL LOANS |
|---|--|-------------------|------------------------|
| 2017 | | | |
| Bank loans – variable rate | 1.9% | 18,000 | 42% |
| Bonds – variable rate | 6.1% | 10,000 | 23% |
| Interest rate swaps (notional principal amount) | 4.1% | (15,000) | |
| Net exposure to cash flow interest rate risk | | 13,000 | |
| 2016 | | | |
| Bank loans – variable rate | 1.9% | 17,000 | 25% |
| Bonds – variable rate | 6.2% | 25,000 | 37% |
| Interest rate swaps (notional principal amount) | 4.1% | (30,000) | |
| Net exposure to cash flow interest rate risk | | 12,000 | |

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

Group Sensitivity

At 30 June 2017, if interest rates had changed by +/- 50 basis points from the year end rates with all other variables held constant, equity is estimated to have been \$114,000 higher/\$146,000 lower (2016: \$202,000 higher/\$312,000 lower) as a result of an increase/decrease in the fair value of the interest rate cash flow hedges.

The Group's profit is estimated to have been \$77,000 lower/\$77,000 higher (2016: \$23,000 lower/\$23,000 higher) as a result of a change in interest rates of +/- 50 basis points applied to the average unhedged portion of debt throughout the year.

(c) CREDIT RISK

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

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

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

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

(d) LIQUIDITY RISK

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Financing Arrangements | | |
| The Group has access to the following undrawn borrowing facilities at the end of the reporting period: | | |
| Unused at balance date – floating rate | | |
| Expiry within one year (bank overdraft and loans) | 5,000 | 31,250 |
| Expiring beyond one year (bank loans) | 28,000 | – |
| | 33,000 | 31,250 |

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

Maturity profile of the Group's borrowings

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

| | LESS THAN 1 YEAR \$'000 | BETWEEN 1 & 2 YEARS \$'000 | BETWEEN 2 & 3 YEARS \$'000 | BETWEEN 4 & 6 YEARS \$'000 | TOTAL CONTRAC- TUAL CASH FLOWS \$'000 | CARRYING AMOUNT \$'000 |
|--|-------------------------------|----------------------------------|----------------------------------|----------------------------------|--|------------------------------|
| 30 June 2017 | | | | | | |
| Non-derivatives | | | | | | |
| Payables | 48,640 | – | – | – | 48,640 | 48,640 |
| Borrowings | 20,345 | 11,675 | 17,130 | – | 49,150 | 43,006 |
| Total non-derivative financial liabilities | 68,985 | 11,675 | 17,130 | – | 97,790 | 91,646 |
| Derivatives | | | | | | |
| Forward foreign exchange contracts – inflow | (51,388) | – | – | – | (51,388) | – |
| Forward foreign exchange contracts – outflow | 52,421 | – | – | – | 52,421 | 1,033 |
| | 1,033 | – | – | – | 1,033 | 1,033 |
| Interest rate contracts | 293 | 293 | 266 | – | 852 | 852 |
| Foreign currency options | 710 | – | – | – | 710 | 710 |
| Total derivative financial instrument liabilities | 2,036 | 293 | 266 | – | 2,595 | 2,595 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

2. FINANCIAL RISK MANAGEMENT CONTINUED

(d) LIQUIDITY RISK (CONTINUED)

Maturity profile of the Group's borrowings (continued)

| | LESS THAN 1 YEAR \$'000 | BETWEEN 1 & 2 YEARS \$'000 | BETWEEN 2 & 3 YEARS \$'000 | BETWEEN 4&6 YEARS \$'000 | TOTAL CONTRAC- TUAL CASH FLOWS \$'000 | CARRYING AMOUNT \$'000 |
|--|-------------------------------|----------------------------------|----------------------------------|--------------------------------|--|------------------------------|
| 30 June 2016 | | | | | | |
| Non-derivatives | | | | | | |
| Payables | 48,810 | – | – | – | 48,810 | 48,810 |
| Borrowings | 21,096 | 3,340 | 31,289 | 28,106 | 83,831 | 66,389 |
| Total non-derivative financial liabilities | 69,906 | 3,340 | 31,289 | 28,106 | 132,641 | 115,199 |
| Derivatives | | | | | | |
| Forward foreign exchange contracts – inflow | (65,701) | – | – | – | (65,701) | – |
| Forward foreign exchange contracts – outflow | 67,298 | – | – | – | 67,298 | 1,597 |
| | 1,597 | – | – | – | 1,597 | 1,597 |
| Interest rate contracts | 654 | 654 | 654 | 597 | 2,559 | 2,559 |
| Foreign currency options | 956 | – | – | – | 956 | 956 |
| Total derivative financial instrument liabilities | 3,207 | 654 | 654 | 597 | 5,112 | 5,112 |

(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 2017 and 30 June 2016 on a recurring basis:

| | 30 JUNE 2017 | | | | 30 JUNE 2016 | | | |
|--|-------------------|-------------------|-------------------|-----------------|-------------------|-------------------|-------------------|-----------------|
| | LEVEL 1 \$'000 | LEVEL 2 \$'000 | LEVEL 3 \$'000 | TOTAL \$'000 | LEVEL 1 \$'000 | LEVEL 2 \$'000 | LEVEL 3 \$'000 | TOTAL \$'000 |
| RECURRING FAIR VALUE MEASUREMENTS | | | | | | | | |
| Financial liabilities at fair value | | | | | | | | |
| Derivative financial instruments | – | 2,595 | – | 2,595 | – | 5,112 | – | 5,112 |
| Total financial liabilities at fair value | – | 2,595 | – | 2,595 | – | 5,112 | – | 5,112 |

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

- Level 1:** The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period.
- Level 2:** The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.
- Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

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

There are no Level 1 or 3 instruments noted as at 30 June 2017 or 30 June 2016.

3. REVENUE

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Revenue from operating activities: | | |
| Sales revenue | 279,458 | 312,586 |
| Other revenue: | | |
| Interest | 46 | 217 |
| Total revenue | 279,504 | 312,803 |

4. OTHER INCOME

| | 2017 \$'000 | 2016 \$'000 |
|-------------------------------|----------------|----------------|
| Commissions | – | 66 |
| Gain on sale of joint venture | – | 1,961 |
| Gain on sale of business | 192 | – |
| Other income | 413 | 364 |
| Total other income | 605 | 2,391 |

5. OPERATING PROFIT

(a) PROFIT BEFORE INCOME TAX EXPENSE INCLUDES THE FOLLOWING NET EXPENSES AND GAINS:

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Expenses: | | |
| Total rental expenses relating to operating leases | 5,173 | 5,518 |
| Bad and doubtful debts – trade debtors | (27) | (112) |
| Provision for stock obsolescence | 2,639 | 7,600 |
| Other provisions: | | |
| Employee entitlements | 2,533 | 2,425 |
| Employee incentives | 2,102 | 1,333 |
| Claims, returns and warranty | 3,311 | 3,331 |
| Restructure | (20) | 333 |
| Other | 69 | 160 |
| Total other provisions | 7,995 | 7,582 |
| Other expenses: | | |
| Cost of goods sold | 160,099 | 179,513 |
| (Gain) on disposal of plant and equipment | (5) | (20) |
| Net foreign exchange (gains)/loss | (961) | 1 |
| Finance costs: | | |
| Amortisation of refinancing costs | 515 | 720 |
| Borrowing costs | 3,927 | 6,343 |
| Termination of interest rate swap associated with refinancing | 78 | – |
| Cost associated with bonds buy back | 1,259 | 257 |
| | 5,779 | 7,320 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

5. OPERATING PROFIT CONTINUED

(b) SIGNIFICANT ITEMS

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

| | 2017 \$'000 | 2016 \$'000 |
|--|-----------------|----------------|
| (i) Restructure costs – recruitment costs of incoming Managing Director and separation costs of retiring Managing Director and other restructuring costs | (1,596) | (5,766) |
| Less: Applicable income tax benefit | 194 | 1,695 |
| | (1,402) | (4,071) |
| (ii) Gain on sale of joint venture (Note 14(a)) | – | 1,961 |
| Less: Applicable income tax expense | – | – |
| | – | 1,961 |
| (iii) Impairment of goodwill within the Australian business segment (Note 16) | (7,000) | – |
| Less: Applicable income tax benefit | – | – |
| | (7,000) | – |
| (iv) Cost associated with bonds buy back | (1,259) | (257) |
| Less: Applicable income tax benefit | 378 | 77 |
| | (881) | (180) |
| (v) Acquisition and one off legal costs | – | (211) |
| Less: Applicable income tax benefit | – | 64 |
| | – | (147) |
| (vi) Impairment of brand names within the Australian business segment (Note 16) | (11,875) | – |
| Less: Applicable income tax benefit | 1,059 | – |
| | (10,816) | – |
| (vii) Impairment of New Zealand business segment (Note 16) | (2,690) | – |
| Less: Applicable income tax expense | (143) | – |
| | (2,833) | – |
| (viii) Gain recognised on divestment of Impulse Merchandising business in Singapore | 192 | – |
| Less: Applicable income tax expense | – | – |
| | 192 | – |
| Total significant items | (24,228) | (4,273) |
| Less: Applicable income tax benefits | 1,488 | 1,836 |
| | (22,740) | (2,437) |

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

Restructure costs – recruitment costs of incoming Managing Director and separation costs of retiring Managing Director and other restructuring costs

During the current period the Group had undergone a leadership transition. The recruitment cost of the new Managing Director (MD) and separation cost of the previous MD amounted to \$780,000. Further restructure costs recognised in the current and prior periods primarily relate to redundancy and other restructuring activities undertaken by the Group. The prior year also includes inventory clearance costs.

Gain on sale of joint venture

In the prior year, the Group recognised a gain on sale of the Housewares joint venture of \$1,961,000. This includes the recognition of \$1,558,000 reassessment of fair value of the put/call option during the current year and the gain on exercising the put/call option of \$403,000. Refer to Note 14(a) for further details.

Impairment of goodwill within the Australian business segment

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

Refer to Note 16 for further information.

Cost associated with bonds buy back

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

In the prior year, the Group completed a bonds buy back of \$5,000,000 of unsecured variable rates corporate bonds and \$5,000,000 of unsecured fixed rate corporate bonds. The associated transaction cost of the bond buy back and the write-off of transaction costs capitalised at inception were recognised in the profit and loss during the current year. The costs amounted to \$257,000.

Acquisition and one off legal costs

Acquisition and transition costs incurred, primarily associated with the Group's acquisition of the A'kin and Al'chemy brands in the prior year. Refer to Note 31 for further information.

Impairment of brand names within the Australian business segment

During the current period the Group recognised an \$11,875,000 impairment of brand names of which \$5,000,000 relates to the Group's Australian cash generating unit of Home Appliances and \$6,875,000 relates to the Revitanail brand. This is as a result of reduced performance of the Home Appliance business and range rationalisation respectively.

Refer to Note 16 for further information.

Impairment of New Zealand business segment

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

Gain recognised on divestments of Impulse Merchandising business in Singapore

During the current period MCP Singapore recognised a \$192,000 capital gain associated with the divestments of its IMD business.

6. DIVIDENDS

Details of dividends declared during the year ended 30 June 2017 are as follows:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Final 30 June 2016 dividend of 2.0 cents per fully paid share (2015: 2.0 cents per fully paid share) fully franked @ 30% | 2,066 | 1,947 |
| Interim 2017 dividend of 6.0 cents per fully paid share (2016: 6.0 cents per fully paid share) fully franked @ 30% | 6,209 | 5,860 |
| Total dividends | 8,275 | 7,807 |
| Dividends not recognised at year end | | |
| In addition to the above dividends, since the year end the Directors have declared a fully franked final dividend of 2.0 cents per fully paid share (2016: 2.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 20 October 2017 but not recognised as a liability at year end is: | 2,079 | 2,066 |
| Franked Dividends | | |
| Franked dividends paid after 30 June 2017 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 2017. | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 21,666 | 17,932 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for receipt of the current tax assets.

DIVIDEND REINVESTMENT PLAN

The Company's dividend reinvestment plan continues to operate without a discount and will apply to the upcoming final dividend. Shareholders on the register at the record date of 3 October 2017 will be eligible for the dividend. Shareholders wishing to participate in the dividend reinvestment plan need to have elected to do so by no later than the trading day immediately following the record date, or by 4 October 2017. Shareholders that have previously elected to participate in the dividend reinvestment plan will continue to do so on the same basis unless a formal election to vary or cease participation is provided by 4 October 2017.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

7. SEGMENT INFORMATION

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

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

SEGMENT REVENUES

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

Revenues of approximately \$35,718,000 (2016: \$49,757,000) and \$31,643,000 (2016: \$40,568,000) were derived from two external customers. These revenues were attributable to the Australian segment.

SEGMENT ASSETS

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

| | AUSTRALIA \$'000 | NEW ZEALAND \$'000 | REST OF THE WORLD \$'000 | INTER- SEGMENT ELIMIN- ATIONS \$'000 | CONSOLI- DATED \$'000 |
|--|---------------------|--------------------------|-----------------------------------|--|-----------------------------|
| 2017 | | | | | |
| Sales to external customers | 262,095 | 9,218 | 8,145 | – | 279,458 |
| Inter-segment sales | 1,844 | – | 2,827 | (4,671) | – |
| Total sales revenue | 263,939 | 9,218 | 10,972 | (4,671) | 279,458 |
| Other revenue/income (excluding interest) | 76 | – | 529 | – | 605 |
| Total segment revenue and other income | 264,015 | 9,218 | 11,501 | (4,671) | 280,063 |
| EBITDA before significant items | 18,818 | (438) | 2,440 | 6,456 | 27,276 |
| Depreciation and amortisation expense | (2,994) | (178) | (79) | – | (3,251) |
| Segment result before significant items | 15,824 | (616) | 2,361 | 6,456 | 24,025 |
| Significant items (excluding interest refer Note 5(b)) | (19,974) | (2,700) | (295) | – | (22,969) |
| Segment result including significant items | (4,150) | (3,316) | 2,066 | 6,456 | 1,056 |
| Net borrowing costs | | | | | (5,733) |
| Loss before income tax | | | | | (4,677) |
| Income tax expense | | | | | (4,396) |
| Loss after income tax | | | | | (9,073) |
| Total segment assets | 199,253 | 4,073 | 24,774 | (19,095) | 209,005 |
| Non-current assets (other than financial assets and deferred tax) | 95,979 | 444 | 1,499 | – | 97,922 |
| Additions to non-current assets (other than financial assets and deferred tax) | 1,751 | 92 | 54 | – | 1,897 |

| | AUSTRALIA \$'000 | NEW ZEALAND \$'000 | REST OF THE WORLD \$'000 | INTER- SEGMENT ELIMIN- ATIONS \$'000 | CONSOLI- DATED \$'000 |
|---|---------------------|--------------------------|-----------------------------------|--|-----------------------------|
| 2016 | | | | | |
| Sales to external customers | 287,957 | 14,074 | 10,555 | – | 312,586 |
| Inter-segment sales | 2,085 | – | 79,188 | (81,273) | – |
| Total sales revenue | 290,042 | 14,074 | 89,743 | (81,273) | 312,586 |
| Other revenue/income (excluding interest) | 103 | 2 | 325 | – | 430 |
| Total segment revenue and other income | 290,145 | 14,076 | 90,068 | (81,273) | 313,016 |
| EBITDA before significant items | 25,453 | 405 | 2,671 | – | 28,529 |
| Depreciation and amortisation expense | (2,544) | (235) | (24) | – | (2,803) |
| Segment result before significant items | 22,909 | 170 | 2,647 | – | 25,726 |
| Significant items (excluding interest refer Note 5(b)) | (2,976) | (1,249) | 209 | – | (4,016) |
| Segment result including significant items | 19,933 | (1,079) | 2,856 | – | 21,710 |
| Net borrowing costs | | | | | (7,103) |
| Profit before income tax | | | | | 14,607 |
| Income tax expense | | | | | (3,606) |
| Profit after income tax | | | | | 11,001 |
| Total segment assets | 232,950 | 8,743 | 32,875 | (25,142) | 249,426 |
| Non-current assets (other than financial assets and deferred tax) | 116,133 | 3,247 | 1,602 | – | 120,982 |
| Additions to non-current assets (other than financial assets and deferred tax) | 5,618 | 85 | 149 | – | 5,852 |

8. INCOME TAX

(a) INCOME TAX EXPENSE

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|----------------|----------------|
| Current tax | 3,597 | 3,093 |
| Deferred tax (Note 8 (a)(i)) | 377 | 67 |
| Under provision in prior years | 422 | 446 |
| | 4,396 | 3,606 |

(i) Deferred income tax expense/(credit) included in income tax expense comprises:

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Decrease/(increase) in deferred tax assets (Note 17) | 1,446 | (6) |
| (Decrease)/increase in deferred tax liabilities (Note 23) | (1,069) | 73 |
| | 377 | 67 |

(b) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Total operating (loss)/profit before tax | (4,677) | 14,607 |
| Prima facie income tax (benefit)/expense at 30% | (1,403) | 4,382 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Impairment of intangible assets | 5,411 | – |
| Impairment of tax assets | 244 | – |
| Non-assessable gain on the disposal of MCP Singapore's IMD business | (58) | – |
| Non-assessable gain on disposal of joint venture | – | (588) |
| Tax rate differences in overseas entities | (255) | (363) |
| Share-based payments expense | 96 | 12 |
| Non-assessable share of net profit of associates accounted for using the equity method | – | (547) |
| Under provision in prior years | 422 | 446 |
| Other | (61) | 264 |
| Income tax expense | 4,396 | 3,606 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

8. INCOME TAX CONTINUED

(c) AMOUNTS RECOGNISED DIRECTLY IN EQUITY

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity: | | |
| Deferred tax assets (Note 17) | (1) | (26) |

(d) TAX EXPENSE RELATING TO ITEMS OF OTHER COMPREHENSIVE INCOME

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------|----------------|----------------|
| Cash flow hedges (Notes 17, 23) | (380) | (1,435) |

9. KEY MANAGEMENT PERSONNEL

| | 2017 \$ | 2016 \$ |
|--|------------------|------------|
| Key management personnel compensation | | |
| Short-term employee benefits | 3,241,565 | 2,192,286 |
| Post-employment benefits | 153,315 | 183,565 |
| Long-term benefits | 18,628 | 38,593 |
| Share-based payments | 233,028 | 24,399 |
| | 3,646,536 | 2,438,843 |

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

LOANS TO KEY MANAGEMENT PERSONNEL

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

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

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

There were no transactions between the consolidated entity and the Directors of McPherson's Limited or with any other key management personnel of the Group, including their personally-related entities, during the current or previous financial year other than those disclosed above, noted in Note 33, relating to remuneration.

10. CASH AND CASH EQUIVALENTS

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------------|----------------|----------------|
| Cash on hand | 13 | 12 |
| Cash at bank and on deposit (at call) | 6,571 | 16,478 |
| | 6,584 | 16,490 |

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

| | | |
|---|--------------|--------|
| Balances as above | 6,584 | 16,490 |
| Cash balance per statement of cash flows | 6,584 | 16,490 |

11. TRADE AND OTHER RECEIVABLES

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Trade receivables | 36,601 | 41,372 |
| Provision for impairment | (166) | (214) |
| | 36,435 | 41,158 |
| Other receivables/prepayments | 3,786 | 3,684 |
| | 40,221 | 44,842 |
| Movements in the provision for impairment of trade receivables are as follows: | | |
| Balance at 1 July | (214) | (378) |
| Provisions for impairment recognised during the year | (4) | – |
| Unused amount received | 31 | 112 |
| Written-off during the year as uncollectible | 20 | 55 |
| Foreign exchange | 1 | (3) |
| | (166) | (214) |

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

CREDIT RISK

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

| | 2017 \$'000 | 2016 \$'000 |
|-------------------------------|----------------|----------------|
| Neither past due nor impaired | 20,291 | 26,694 |
| Past due, but not impaired: | | |
| – less than 30 days | 13,912 | 11,804 |
| – 30 to 59 days | 1,327 | 1,724 |
| – 60 to 89 days | 793 | 613 |
| – 90 to 119 days | 27 | 70 |
| – 120 days or more | 251 | 467 |
| Gross carrying amount | 36,601 | 41,372 |
| Provision for impairment | (166) | (214) |
| Net carrying amount | 36,435 | 41,158 |

CREDIT RISK CONCENTRATION

Two external customers represent \$10,393,000 (2016: \$11,795,000) and \$6,616,000 (2016: \$8,630,000) respectively of the closing receivables balance. These debtor balances are in relation to the Australian business.

12. INVENTORIES

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------------|----------------|----------------|
| Raw materials | 2,823 | 4,478 |
| Finished goods | 48,328 | 55,683 |
| Stock in transit | 12,512 | 8,060 |
| | 63,663 | 68,221 |
| Provision for inventory obsolescence | (4,298) | (8,434) |
| | 59,365 | 59,787 |

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

Inventory recognised as cost of goods sold during the year ended 30 June 2017 amounted to \$160,099,000 (2016: \$179,513,000).

During the prior financial year, the Group executed a brand product rationalisation in the Health, Wellness & Beauty division. This review had resulted in a significant increase in the provision for stock obsolescence. In addition a provision was raised for the IMD business which was closed in Australia and New Zealand in July 2016 and divested in Singapore in September 2016. The provision has decreased in FY17 due to the utilisation of the provision created for brand rationalisation.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Current liabilities | | |
| Interest rate contracts – cash flow hedges | 293 | 654 |
| Forward foreign exchange contracts – cash flow hedges | 1,033 | 1,597 |
| Foreign currency options – cash flow hedges | 710 | 956 |
| Total current derivative financial instrument liabilities | 2,036 | 3,207 |
| Non-current liabilities | | |
| Interest rate contracts – cash flow hedges | 559 | 1,905 |

(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 2017 to June 2018.

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 swap contracts – cash flow hedges

The Group has entered into two floating to fixed interest rate swaps contract to reduce its exposure to possible increases in interest rates. Refer to Note 2 for further information.

(b) CREDIT RISK EXPOSURE

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

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

(c) INTEREST RATE AND FOREIGN EXCHANGE RISK

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

14. DISPOSAL AND INTEREST IN JOINT VENTURE

(a) PRIOR PERIOD – HOUSEWARES DISPOSAL

In the prior year, the Fackelmann Group exercised its call options over the McPherson's Limited Group's 49% ownership in the Housewares New Zealand, Hong Kong and Singapore businesses. On the same date, McPherson's Limited Group exercised its put option over its 49% ownership in the Housewares Australia business. The divestment of the remaining shares generated proceeds of \$18,185,000.

The details of the disposal are set out below:

| | NOTE | \$'000 |
|--|-------|---------------|
| Cash received ¹ | | 18,185 |
| Carrying amount of equity investment in joint venture | 14 | (13,038) |
| Contingent consideration receivable | | (4,686) |
| Stock written off | | (58) |
| Gain on exercise of put/call options | | 403 |
| Adjustment arising from reassessment of the put/call option | | 1,558 |
| Gain on sale of joint venture | | 1,961 |
| ¹ Cash received during prior financial year: | | |
| Cash received on disposal of 51% of Housewares New Zealand | 14(b) | 125 |
| Cash received on disposal of 49% of Housewares Australia, New Zealand, Hong Kong and Singapore | | 18,185 |
| Cash received per consolidated flow statement | | 18,310 |

(b) PRIOR PERIOD – HOUSEWARES NZ DISPOSALS

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

The details of the disposal are set out below:

| | \$'000 |
|--|----------|
| Cash received | 2,039 |
| Fair value of put/call option | 541 |
| Total sale consideration | 2,580 |
| Fair value of 49% interest retained | 2,458 |
| Carrying amount of net assets disposed | (5,038) |
| Gain on sale | – |

The carrying amounts of assets and liabilities disposed of:

| | \$'000 |
|-------------------------------|--------------|
| Inventories | 3,984 |
| Property, plant and equipment | 78 |
| Intangible assets | 1,060 |
| Deferred tax assets | 33 |
| Total assets | 5,155 |
| Employee benefits | (117) |
| Total liabilities | (117) |
| Net assets | 5,038 |

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

During the period from 1 July 2015 to 31 March 2016 the Group had equity accounted for its share of the joint venture's net profit.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

15. PROPERTY, PLANT AND EQUIPMENT

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Leasehold improvements: | | |
| At cost | 292 | 292 |
| Accumulated depreciation | (247) | (240) |
| Total leasehold improvements | 45 | 52 |
| Plant and equipment: | | |
| At cost | 33,358 | 32,887 |
| Accumulated depreciation | (28,475) | (27,096) |
| Total plant and equipment | 4,883 | 5,791 |
| Total property, plant and equipment | 4,928 | 5,843 |

(a) RECONCILIATIONS

| | LEASEHOLD IMPROVE- MENTS \$'000 | PLANT AND EQUIPMENT \$'000 | TOTAL \$'000 |
|---|--|----------------------------------|-----------------|
| Carrying amount at 1 July 2015 | 48 | 5,453 | 5,501 |
| Additions | – | 2,953 | 2,953 |
| Disposals | – | (58) | (58) |
| Transfers | – | (234) | (234) |
| Transfer of assets previously held for sale | – | 24 | 24 |
| Impairment | – | (197) | (197) |
| Depreciation expense | – | (2,204) | (2,204) |
| Foreign currency exchange differences | 4 | 54 | 58 |
| Carrying amount at 30 June 2016 | 52 | 5,791 | 5,843 |
| Additions | – | 1,549 | 1,549 |
| Disposals | – | (19) | (19) |
| Transfers | – | (10) | (10) |
| Depreciation expense | (7) | (2,409) | (2,416) |
| Foreign currency exchange differences | – | (19) | (19) |
| Carrying amount at 30 June 2017 | 45 | 4,883 | 4,928 |

(b) NON-CURRENT ASSETS PLEDGED AS SECURITY

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

16. INTANGIBLE ASSETS

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------|----------------|----------------|
| Goodwill | 28,002 | 37,785 |
| Brand names | 62,351 | 74,226 |
| Other intangibles | 8,640 | 8,292 |
| Accumulated amortisation | (5,999) | (5,164) |
| | 2,641 | 3,128 |
| Total intangibles | 92,994 | 115,139 |

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 2015 | 34,764 | 52,153 | 2,501 | 89,418 |
| Additions | – | 1,907 | 992 | 2,899 |
| Transfers | – | – | 234 | 234 |
| Transfer of assets previously held for sale | 2,784 | 20,166 | – | 22,950 |
| Amortisation charge | – | – | (599) | (599) |
| Foreign currency exchange differences | 237 | – | – | 237 |
| Carrying amount at 30 June 2016 | 37,785 | 74,226 | 3,128 | 115,139 |
| Additions | – | – | 348 | 348 |
| Impairment charge | (9,690) | (11,875) | – | (21,565) |
| Amortisation charge | – | – | (835) | (835) |
| Foreign currency exchange differences | (93) | – | – | (93) |
| Carrying amount at 30 June 2017 | 28,002 | 62,351 | 2,641 | 92,994 |

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.

During the prior financial year, the Group had settled the terms of the final consideration payable for the Dr. LeWinn's and Revitanail acquisition. As such \$1,907,000 (including related stamp duty) has been capitalised to the carrying amount of the brand names.

The Group ceased to pursue the sale of the household consumables business during the prior year and since that time the net assets of the business are no longer deemed as held for sale. The net assets were reclassified to their respective financial statement line items in the Balance Sheet. This included brand name (\$20,166,000) and goodwill (\$2,784,000) assets, offset by a deferred tax liability.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

16. INTANGIBLE ASSETS CONTINUED

IMPAIRMENT TESTING

Goodwill

Goodwill is allocated to the following cash generating units:

| | 2017 \$'000 | 2016 \$'000 |
|---------------------------------------|----------------|----------------|
| Australia (excluding Home Appliances) | 15,609 | 15,677 |
| Home Appliances | 12,393 | 19,393 |
| New Zealand | – | 2,715 |
| | 28,002 | 37,785 |

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

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

| | 30 JUNE 2017 | | | | 30 JUNE 2016 | | |
|--------------------------------|--|----------------------------|------------------------------|-----------------------------|--|------------------------------|-----------------------------|
| | ESTIMATED GROWTH RATES YEAR 2 ONWARDS | TERMINAL GROWTH RATE | POST-TAX DISCOUNT RATE | PRE-TAX DISCOUNT RATE | ESTIMATED GROWTH RATES YEAR 2 ONWARDS | POST-TAX DISCOUNT RATE | PRE-TAX DISCOUNT RATE |
| Australia (ex Home Appliances) | 2.0% | 2.0% | 10.0% | 13.7% | 2.0% | 10.0% | 13.7% |
| Home Appliances | 3.0% | 2.5% | 10.3% | 13.8% | 3.0% | 10.3% | 13.8% |

In addition to the above, it is noted that the year one cash flow projection is a key assumption within the value-in-use calculations. The cash flow projections used for the year one cash flows are based on the Board approved financial budgets/forecasts. The budgets reflect the Board's expectation of cash flows, for the Australian (excluding Home Appliances) cash-generating unit, arising from profit optimisation initiatives, new product launches and the inventory rationalisation project. At 30 June 2017, the value-in-use calculations for all cash generating units exceeded the carrying value of their net assets. The surplus amount within the Australia (excluding Home Appliances) calculation is \$105,191,000 (June 2016: \$53,648,000). The surplus amount within the Home Appliances calculation is \$6,623,000 (June 2016: \$2,681,000).

Impairment charge

In light of first half trading performance, Goodwill was tested for impairment at 31 December 2016 and an impairment charge of \$7,000,000 was recognised against the Home Appliances cash generating unit and \$1,800,000 was recognised against the New Zealand cash generating unit. The impairment charge was a direct result of the reduction in the EBIT forecast available at the half year. A further \$890,000 impairment of the goodwill in New Zealand was recognised in the second half of the financial year as a result of the continued poor performance.

Impact of possible changes in key assumptions

If the year one earnings before interest and tax (EBIT) used in the value-in-use calculation for the Home Appliances cash generating unit were to be 10.0% below the current estimated EBIT, the surplus within the calculations would reduce to \$2,834,000.

If the post-tax discount rate used in the value-in-use calculation for the Home Appliances cash generating unit was to be 1.0 percentage point higher than management's estimate (11.25% instead of 10.25%), the surplus within the calculations would reduce to \$2,564,000.

If the terminal year growth rate used in the value-in-use calculation for the Home Appliances cash generating unit was to be 1.0 percentage point lower than management's estimate (1.5% instead of 2.5%), the surplus within the calculations would reduce to \$3,483,000.

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.

| | 2017 | 2016 |
|-----------------------------------|---------------|---------------|
| Estimated growth rates | 1.0% – 5.0% | 1.0% – 5.0% |
| Post-tax discount rates | 10.0% – 10.3% | 10.0% – 10.3% |
| Pre-tax discount rate equivalents | 13.1% – 14.1% | 12.9% – 13.9% |

At 30 June 2017, the total carrying value of brand names tested using the value-in-use method was \$62,351,000 (2016: \$74,226,000). The value-in-use calculations for these brand names exceeded their carrying values.

Impairment charge

In light of first half trading performance, brand names were tested for impairment at 31 December 2016 and an impairment charge of \$6,000,000 was recognised against the Revitanail brand name in the Australian consumer products business. This charge was necessitated by the recent range rationalisation associated with the brand. Based on the continued performance of the brand, a further \$875,000 impairment was recognised against this brand. The impairment charges are included within the Australian reportable segment within Note 7 Segment Information.

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

Impact of possible changes in key assumptions

If the year one projected sales by brand were 10.0% below the current estimates used in the value-in-use calculations, no brand impairment charge would arise.

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

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

17. DEFERRED TAX ASSETS

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| The balance comprises temporary differences attributable to: | | |
| Cash flow hedges | 770 | 1,530 |
| Employee benefits | 1,655 | 1,954 |
| Depreciation | 886 | 1,093 |
| Inventory obsolescence | 13 | 603 |
| Transaction costs arising on share issues | (3) | 79 |
| Trade receivables impairment | 44 | 60 |
| Claims and returns | 63 | 237 |
| Warranty | 767 | 652 |
| Other provisions and accruals | 477 | 386 |
| Total temporary differences | 4,672 | 6,594 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

17. DEFERRED TAX ASSETS CONTINUED

MOVEMENTS

| | CASH FLOW HEDGES \$'000 | EMPLOYEE BENEFITS \$'000 | DEPRECIATION \$'000 | OBSOLES- CENCE \$'000 | TRANS- ACTION COSTS ARISING ON SHARE ISSUES \$'000 | OTHER \$'000 | TOTAL \$'000 |
|---|-------------------------------|--------------------------------|------------------------|-----------------------------|--|-----------------|-----------------|
| Closing balance at 1 July 2015 | 868 | 1,969 | 1,143 | 203 | 110 | 1,262 | 5,555 |
| Credited/(charged) to profit or loss (Note 8) | (185) | (55) | (46) | 362 | – | (70) | 6 |
| Credited to equity | 843 | – | – | – | 26 | – | 869 |
| Amortisation of transaction costs on share issues | – | – | – | – | (57) | – | (57) |
| Transfers | – | 35 | (14) | – | – | – | 21 |
| Under provision in prior years | 4 | 10 | 13 | 19 | – | 149 | 195 |
| Foreign currency exchange differences | – | (5) | (3) | 19 | – | (6) | 5 |
| Closing balance at 30 June 2016 | 1,530 | 1,954 | 1,093 | 603 | 79 | 1,335 | 6,594 |
| Charged to profit or loss (Note 8) | (327) | (233) | (286) | (519) | – | (81) | (1,446) |
| Charged to equity | (380) | – | – | – | – | – | (380) |
| Amortisation of transaction costs on share issues | – | – | – | – | (82) | – | (82) |
| Under/(over) provision in prior years | (52) | (57) | 79 | (67) | – | 82 | (15) |
| Foreign currency exchange differences | (1) | (9) | – | (4) | – | 15 | 1 |
| Closing balance at 30 June 2017 | 770 | 1,655 | 886 | 13 | (3) | 1,351 | 4,672 |

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Deferred tax assets to be recovered within 12 months | 3,392 | 4,593 |
| Deferred tax assets to be recovered after more than 12 months | 1,280 | 2,001 |
| | 4,672 | 6,594 |

18. TRADE AND OTHER PAYABLES

| | 2017 \$'000 | 2016 \$'000 |
|----------------|----------------|----------------|
| Trade payables | 24,584 | 25,400 |
| Other payables | 24,056 | 23,410 |
| | 48,640 | 48,810 |

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

19. BORROWINGS – CURRENT

| | 2017 \$'000 | 2016 \$'000 |
|----------------------|----------------|----------------|
| Bank loans – secured | 18,000 | 17,000 |
| Other borrowings | 406 | 503 |
| | 18,406 | 17,503 |

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

Of the borrowings, \$18,000,000 relates to a secured working capital loan. The Group's facility is denominated in Australian dollars and the facility limit is \$51,000,000. Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

The remaining loan balance relates to another financing facility.

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

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

20. PROVISIONS – CURRENT

| | 2017 \$'000 | 2016 \$'000 |
|------------------------------|----------------|----------------|
| Employee entitlements | 4,749 | 5,598 |
| Claims, returns and warranty | 3,000 | 2,176 |
| Restructure | – | 333 |
| Employee incentives | 1,945 | 872 |
| Other | 358 | 295 |
| | 10,052 | 9,274 |

(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 56% of the current balance will be taken or paid within the next 12 months.

(b) CLAIMS, RETURNS AND WARRANTY

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

(c) RESTRUCTURE

During the prior financial year, the Group commenced a restructuring program to continue to align the Group's structure with the current strategy and environment. Since the restructuring plans for the prior year were formally announced to the employees prior to the end of the year, a provision had been raised for the restructuring activities that were not completed until the current financial year.

(d) EMPLOYEE INCENTIVES

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

(e) OTHER

Miscellaneous obligations for which there is a probability of an outflow of resources.

Movement in provisions

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

| | CLAIMS, RETURNS AND WARRANTY \$'000 | RE- STRUCTURE \$'000 | EMPLOYEE INCENTIVES \$'000 | OTHER \$'000 |
|---|---|----------------------------|----------------------------------|-----------------|
| Carrying amount at 1 July 2016 | 2,176 | 333 | 872 | 295 |
| Additional provisions charged to profit or loss | 3,311 | – | 2,102 | 69 |
| Unused amounts reversed to profit or loss | – | (20) | – | – |
| Payments | (2,487) | (312) | (1,029) | – |
| Foreign currency exchange differences | – | (1) | – | (6) |
| Carrying amount at 30 June 2017 | 3,000 | – | 1,945 | 358 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

21. BORROWINGS – NON-CURRENT

| | 2017 \$'000 | 2016 \$'000 |
|------------------------------|----------------|----------------|
| Unsecured liabilities | | |
| Bonds | 25,000 | 50,000 |
| Debt issue Costs | (400) | (1,114) |
| | 24,600 | 48,886 |

The Group's facilities remain denominated in Australian dollars at 30 June 2017. In November 2016 and March 2017 the Group restructured its funding sources. The Group's facilities were and remain denominated in Australian dollars and comprised:

- \$10,000,000 unsecured variable rate corporate bonds. The bonds mature in March 2019 and pay a coupon rate of 4.3% over the 90 day Bank Bill Swap Rate;
- \$15,000,000 unsecured fixed rate corporate bonds. The bonds mature in March 2021 and pay a fixed rate of 7.10%;
- In November 2016, the Group completed a buy back of \$10,000,000 unsecured fixed rate corporate bonds. The buy back consideration was \$10,400,000 for face value of \$10,000,000;
- In March 2017, the Group completed a buy back of \$15,000,000 unsecured variable rate corporate bonds. The buy back consideration was \$15,450,000 for face value of \$15,000,000; and
- The secured bank loans are recorded within current borrowings in Note 19.

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

On 7 February 2017, the Group refinanced its working capital facilities. The life of the facility is 2 years expiring on 28 February 2019. Refer to Note 24 for key changes of the financial covenants associated with the Group's borrowings.

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

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

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

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

In the prior financial year, the Group completed a buy back of \$5,000,000 unsecured variable rate corporate bonds and \$5,000,000 unsecured fixed rate corporate bonds. The buy back consideration was \$9,977,000 for face value of \$10,000,000. Refer to Note 5(b) Significant Items for further details.

SECURITY FOR BORROWINGS

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

The Group facilities are secured by the following:

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

ASSETS PLEDGED AS SECURITY

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Fixed charge | | |
| Property, plant and equipment | 4,795 | 5,684 |
| Intangible assets | 92,027 | 114,117 |
| Total non-current assets pledged as security | 96,822 | 119,801 |
| The following current assets are also pledged as security: | | |
| Fixed charge | | |
| Receivables | 37,082 | 41,088 |
| Floating charge | | |
| Cash | 3,617 | 14,400 |
| Inventories | 58,343 | 57,921 |
| Receivables | 1,569 | 1,537 |
| Total current assets pledged as security | 100,611 | 114,946 |
| Total assets pledged as security | 197,433 | 234,747 |

22. PROVISIONS – NON-CURRENT

| | 2017 \$'000 | 2016 \$'000 |
|-----------------------|----------------|----------------|
| Employee entitlements | 943 | 1,000 |

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

23. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Brand names | 12,732 | 13,791 |
| Prepayments | 34 | 74 |
| Depreciation | 26 | 4 |
| Other | (6) | 24 |
| Total temporary differences | 12,786 | 13,893 |
| Deferred tax liabilities to be settled within 12 months | 31 | 33 |
| Deferred tax liabilities to be settled after more than 12 months | 12,755 | 13,860 |
| | 12,786 | 13,893 |

MOVEMENTS

| | BRAND NAMES \$'000 | CASH FLOW HEDGES \$'000 | OTHER \$'000 | TOTAL \$'000 |
|---|--------------------------|-------------------------------|-----------------|-----------------|
| Consolidated | | | | |
| Closing balance at 30 June 2015 | 7,741 | 586 | 36 | 8,363 |
| Charged to profit or loss (Note 8) | – | – | 73 | 73 |
| (Credited) to equity | – | (592) | – | (592) |
| Transfer of assets previously held for sale | 6,050 | – | – | 6,050 |
| Under provision in prior years | – | – | (7) | (7) |
| Foreign exchange | – | 6 | – | 6 |
| Closing balance at 30 June 2016 | 13,791 | – | 102 | 13,893 |
| (Credited) to profit or loss (Note 8) | (1,059) | – | (10) | (1,069) |
| Under provision in prior years | – | – | (33) | (33) |
| Foreign exchange | – | – | (5) | (5) |
| Closing balance at 30 June 2017 | 12,732 | – | 54 | 12,786 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

24. CONTRIBUTED EQUITY

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Issued and paid up capital: | | |
| 103,951,015 (June 2016: 103,318,229) ordinary shares – fully paid | 154,790 | 154,042 |

MOVEMENTS IN ORDINARY SHARE CAPITAL

| DATE | DETAILS | NUMBER OF SHARES | PRICE \$ | \$'000 |
|---------------------|--|---------------------|----------|----------------|
| 1 July 2015 | Opening Balance | 97,338,017 | | 149,191 |
| | Shares issued – Dividend reinvestment plan for 30 June 2015 final dividend | 331,404 | 0.68 | 224 |
| | Shares issued – Dividend reinvestment plan for 31 December 2015 interim dividend | 769,291 | 0.83 | 639 |
| | Shares issued – Dividends underwritten | 4,879,517 | 0.83 | 4,050 |
| | Transaction costs associated with share issues | | | (89) |
| | Tax effect of share issue transaction costs recognised directly in equity | | | 27 |
| 30 June 2016 | Closing Balance | 103,318,229 | | 154,042 |
| | Shares issued – Dividend reinvestment plan for 30 June 2016 final dividend | 141,112 | 1.06 | 149 |
| | Shares issued – Dividend reinvestment plan for 31 December 2016 interim dividend | 491,674 | 1.23 | 604 |
| | Transaction costs associated with share issues | | | (7) |
| | Tax effect of share issue transaction costs recognised directly in equity | | | 2 |
| 30 June 2017 | Closing Balance | 103,951,015 | | 154,790 |

ORDINARY SHARES

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

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

OPTIONS AND PERFORMANCE RIGHTS

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

CAPITAL RISK MANAGEMENT

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

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

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

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|----------------|----------------|
| Total borrowings (Note 19, 21) | 43,006 | 66,389 |
| Less: Cash assets (Note 10) | (6,584) | (16,490) |
| Net debt | 36,422 | 49,899 |
| Total equity | 88,486 | 104,485 |
| Total capital | 124,908 | 154,384 |
| Gearing ratio | 29.2% | 32.3% |

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

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

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

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

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

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

As at 30 June 2017, the Group was compliant with its debt covenants.

25. RESERVES AND ACCUMULATED LOSS

(a) RESERVES

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Hedging reserve – cash flow hedges | (1,602) | (2,502) |
| Share-based payments reserve | 1,734 | 1,412 |
| Foreign currency translation reserve | 1,104 | 1,725 |
| | 1,236 | 635 |
| Hedging reserve – cash flow hedges: | | |
| Balance 1 July | (2,502) | 888 |
| Revaluation – gross | (1,745) | (2,528) |
| Deferred tax (Note 17, 23) | 523 | 765 |
| Transfer to cost of sales – gross | 3,561 | (1,332) |
| Deferred tax (Note 17, 23) | (1,068) | 388 |
| Transfer to finance costs – gross | (536) | (942) |
| Deferred tax (Note 17, 23) | 165 | 282 |
| Reclassification of reserves to profit and loss on disposal of joint venture | – | (23) |
| Balance 30 June | (1,602) | (2,502) |
| Share-based payments reserve: | | |
| Balance 1 July | 1,412 | 1,373 |
| Share-based payments | 322 | 39 |
| Balance 30 June | 1,734 | 1,412 |
| Foreign currency translation reserve: | | |
| Balance 1 July | 1,725 | 672 |
| Currency translation differences arising during the year | (621) | 1,117 |
| Reclassification of reserves to profit and loss on disposal of joint venture | – | (64) |
| Balance 30 June | 1,104 | 1,725 |

(b) ACCUMULATED LOSSES

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------|-----------------|-----------------|
| Balance 1 July | (50,192) | (53,386) |
| (Loss)/profit after tax | (9,073) | 11,001 |
| Dividends provided for or paid | (8,275) | (7,807) |
| Balance 30 June | (67,540) | (50,192) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

25. RESERVES AND ACCUMULATED LOSS CONTINUED

(c) NATURE AND PURPOSE OF RESERVES

Hedging reserve – cash flow hedges

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

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of Performance Rights issued at grant date but not exercised.

Foreign currency translation reserve

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

26. SHARE-BASED PAYMENTS

(a) EMPLOYEE PERFORMANCE RIGHTS PLAN

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

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

High Level Performance Rights are issued to the Managing Director and Performance Rights are issued to certain other senior executives as part of their remuneration. Each right is entitled to acquire one share for no consideration subject to the satisfaction of the vesting conditions which are based on performance and time related conditions. The number of rights that will vest are determined proportionately on a straight line basis based on the compound annual growth rate (CAGR) of the Group's earnings per share (EPS) over a two to three year period (depending on the terms of issue). The base EPS to be used in determining whether the vesting conditions have been satisfied is the reported underlying EPS for the 30 June financial year immediately prior to when the rights were issued. The underlying EPS is subject to further adjustment at the discretion of the Nomination and Remuneration Committee when considered appropriate. The rights will vest proportionately from no rights vesting if the Group's EPS CAGR is 3.0% or less to 100% of rights vesting if the Group's EPS CAGR is 8.0% or higher. The Performance Rights carry no dividend or voting rights.

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

The Commencement Rights granted to the Managing Director will vest providing Mr. L. McAllister continues to be the Managing Director of the Company until 1 November 2024.

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

| | 2017 | | 2016 | |
|-------------------------|---|---------------------|---|---------------------|
| | AVERAGE FAIR VALUE AT GRANT DATE | NUMBER OF RIGHTS | AVERAGE FAIR VALUE AT GRANT DATE | NUMBER OF RIGHTS |
| As at 1 July | \$0.70 | 1,459,000 | \$1.19 | 736,000 |
| Granted during the year | \$0.65 | 1,416,000 | \$0.50 | 1,015,000 |
| Lapsed during the year | – | (304,000) | – | (292,000) |
| As at 30 June | \$0.76 | 2,571,000 | \$0.70 | 1,459,000 |
| Vested and exercisable | | – | – | – |

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

Commencement & High Level Performance Rights – have been independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the commencement date of 21 November 2016 less the present value of expected dividends forgone prior to vesting.

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

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

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

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

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

| GRANT DATE | VESTING DATE | NUMBER OF RIGHTS | |
|-------------------|-------------------|------------------|--------------|
| | | 30 JUNE 2017 | 30 JUNE 2016 |
| 20 November 2013 | 16 September 2016 | – | 163,000 |
| 24 November 2014 | 18 September 2017 | 281,000 | 281,000 |
| 27 October 2015 | 18 September 2018 | 874,000 | 1,015,000 |
| 22 September 2016 | 25 September 2019 | 245,000 | – |
| 21 November 2016 | 25 September 2019 | 263,000 | – |
| 21 November 2016 | 25 September 2019 | 318,000 | – |
| 21 November 2016 | 25 September 2020 | 590,000 | – |
| Total | | 2,571,000 | 1,459,000 |

(b) 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:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Performance Rights issued under the employee Performance Rights plan | 322 | 39 |

27. CONTRACTUAL COMMITMENTS FOR EXPENDITURE

(a) CAPITAL COMMITMENTS

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

| | 2017 \$'000 | 2016 \$'000 |
|-------------------------|----------------|----------------|
| Not later than one year | 453 | 455 |

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:

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Not later than one year | 5,956 | 6,397 |
| Later than one year but not later than five years | 14,844 | 16,675 |
| Later than five years | – | 3,485 |
| | 20,800 | 26,557 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

28. CONTINGENT LIABILITIES

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

29. REMUNERATION OF AUDITORS

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

| | 2017 \$ | 2016 \$ |
|---|----------------|----------------|
| (a) PRICEWATERHOUSECOOPERS AUSTRALIA | | |
| (i) Audit and other assurance services | | |
| Audit and review of financial statements | 376,000 | 366,000 |
| Total remuneration for audit and other assurance services | 376,000 | 366,000 |
| (ii) Other services | | |
| AASB 9 advisory | 10,500 | – |
| Tax advice relating to employee Performance Rights plan | 3,400 | 2,000 |
| Due diligence review | 76,795 | 103,049 |
| Dispute support services | – | 28,013 |
| Total remuneration for other services | 90,695 | 133,062 |
| Total remuneration of PricewaterhouseCoopers Australia | 466,695 | 499,062 |
| (b) NETWORK FIRMS OF PRICEWATERHOUSECOOPERS AUSTRALIA | | |
| (i) Audit and other assurance services | | |
| Audit and review of financial statements | – | 38,115 |
| Total remuneration for audit and other assurance services | – | 38,115 |
| Total remuneration of network firms of PricewaterhouseCoopers Australia | 466,695 | 537,177 |
| (c) NON PRICEWATERHOUSECOOPERS AUDIT FIRMS | | |
| (i) Audit and other assurance services | | |
| Audit and review of financial statements | 31,413 | 35,157 |
| Total remuneration of non-PricewaterhouseCoopers audit firms | 31,413 | 35,157 |
| Total auditor's remuneration | 498,108 | 572,334 |

30. (LOSS)/EARNINGS PER SHARE

| | 2017 CENTS | 2016 CENTS |
|--|---------------|---------------|
| Basic (loss)/earnings per share | (8.8) | 11.1 |
| Diluted (loss)/earnings per share | (8.8) | 11.1 |
| Basic earnings per share excluding significant items | 13.2 | 13.6 |

RECONCILIATION OF (LOSS)/EARNINGS USED IN CALCULATING EARNINGS PER SHARE

| | 2017 \$'000 | 2016 \$'000 |
|---|----------------|----------------|
| Basic and diluted (loss)/earnings per share | | |
| Profit for the period (excluding significant items) | 13,667 | 13,438 |
| Significant items, net of tax | (22,740) | (2,437) |
| (Loss)/Profit for the period | (9,073) | 11,001 |

WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

| | 2017 NUMBER | 2016 NUMBER |
|--|--------------------|----------------|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 103,542,054 | 98,849,571 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 103,542,054 | 98,849,571 |
| Performance Rights that are not dilutive and are therefore not included in the calculation of diluted earnings per share | 2,571,000 | 1,459,000 |

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.

The outstanding Performance Rights are not included in the calculation of diluted earnings per share because they are anti dilutive for the years ended 30 June 2017 and 2016. These Performance Rights could potentially dilute basic earnings per share in the future.

31. ACQUISITIONS

(a) PRIOR PERIOD

(i) Acquisition

In the prior year the Group's Australian business acquired the remaining 17.79% of the Home Appliances business for \$6,637,000. The Home Appliances business is now a 100% owned subsidiary of the Group.

(ii) Contingent consideration

During the prior year, the Group had settled the terms of the final consideration payable for the Dr. LeWinn's and Revitanail acquisition. As such \$1,907,000 (including related stamp duty) had been capitalised to the carrying amount of the brand names.

32. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

| | COUNTRY OF INCORPORATION |
|---|-----------------------------|
| McPherson's Limited | Australia |
| Controlled entities of McPherson's Limited | |
| Domenica Pty Ltd * | Australia |
| McPherson's Consumer Products (NZ) Limited | New Zealand |
| McPherson's Consumer Products Pty Ltd * | Australia |
| Home Appliances Pty Ltd ** | Australia |
| Electrical Distributors Australia Pty Ltd | Australia |
| Electrical Distributors Repairs Servicing Pty Ltd | Australia |
| Euromaid Cooking Appliances NZ Limited | New Zealand |
| Integrated Appliance Group Pty Ltd | Australia |
| ARC Appliance Group Pty Ltd | Australia |
| McPherson's Consumer Products Pte Ltd | Singapore |
| Multix Pty Ltd * | Australia |
| McPherson's America Inc. | USA |
| McPherson's Publishing Inc | USA |
| Regent-Sheffield Ltd | USA |
| McPherson's Hong Kong Limited | Hong Kong |
| McPherson's Consumer Products (HK) Limited | Hong Kong |
| Cork International Far East Limited | Hong Kong |
| McPherson's (UK) Limited | United Kingdom |
| A.C.N. 082 110 101 Pty Ltd | Australia |
| 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.

** On 6 July 2015, the McPherson's Group acquired the remaining 17.79% of Home Appliances Pty Ltd. As such, Home Appliances Pty Limited and its Australian subsidiaries form part of the McPherson's Group and 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.

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

All investments represent 100% ownership interest unless otherwise stated.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

33. RELATED PARTIES

DIRECTORS

Details relating to the insurance of Directors are included in the Directors' Report. Also, from 1 June 2016, A.M. Lacaze's remuneration fees are 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

The following transactions occurred with other related parties:

| | 2017 \$ | 2016 \$ |
|--|------------|------------|
| Recharge of administration services to joint venture | – | 3,912,003 |
| Interest charged to joint venture | – | 100,726 |

In the prior year the Group also paid for certain charges on behalf of its previous joint venture Housewares which were then recharged to the joint venture at the same value. These transactions were entered into by the Group on a back-to-back basis with the Housewares joint venture. During the prior year the Group paid \$730,996 that was then recharged to the Housewares joint venture at cost.

Housewares ceased to be a related party upon Groups divestment of the joint venture on 31 March 2016. Refer to Note 14.

LOANS TO RELATED PARTIES

| | 2017 \$ | 2016 \$ |
|--|------------|-------------|
| Loans to Housewares joint venture | | |
| Beginning of the year | – | 1,926,779 |
| Loans advanced | – | 1,214,221 |
| Loans repaid | – | (3,141,000) |
| Interest charged | – | 100,826 |
| Interest received | – | (100,826) |
| End of year | – | – |

TERMS AND CONDITIONS

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

34. DEED OF CROSS GUARANTEE

McPherson's Limited, and the following controlled entities, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

- McPherson's Consumer Products Pty Ltd
- Multix Pty Ltd
- Domenica Pty Ltd
- Home Appliances Pty Ltd *
- Electrical Distributors Australia Pty Ltd *
- Electrical Distributors Repairs Servicing Pty Ltd *
- Integrated Appliance Group Pty Ltd *
- ARC Appliance Group Pty Ltd *

* On 6 July 2015, the McPherson's Limited Group acquired the remaining 17.79% of Home Appliances Pty Ltd and its subsidiaries. These entities form part of the Group's Deed of Cross Guarantee since financial year 2016.

By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a Financial Report and Directors' Report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investment Commission.

(a) CONDENSED CONSOLIDATED INCOME STATEMENT AND A SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED PROFITS

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

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2017 of the Closed Group.

| | 2017 \$'000 | 2016 \$'000 |
|---|-----------------|----------------|
| Income statement | | |
| Revenue | 263,939 | 290,080 |
| Other income | 4,781 | 9,448 |
| Expenses | (262,418) | (270,560) |
| Finance costs | (4,922) | (7,589) |
| Share of net profit of associates accounted for using the equity method | – | 1,604 |
| Profit before income tax | 1,380 | 22,983 |
| Income tax expense | (4,830) | (2,197) |
| Profit for the year | (3,450) | 20,786 |
| Summary of movements in consolidated retained profits | | |
| Accumulated losses at beginning of the financial year | (62,770) | (80,477) |
| Acquisition | – | 4,728 |
| Profit after income tax for the year | (3,450) | 20,786 |
| Dividends provided for or paid | (8,275) | (7,807) |
| Accumulated losses at the end of the financial year | (74,495) | (62,770) |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

34. DEED OF CROSS GUARANTEE CONTINUED

(b) BALANCE SHEET

Set out below is a consolidated balance sheet as at 30 June 2017 of the Closed Group.

| | 2017 \$'000 | 2016 \$'000 |
|--------------------------------------|----------------|----------------|
| Current assets | | |
| Cash and cash equivalents | 2,039 | 13,018 |
| Trade and other receivables | 39,682 | 41,390 |
| Inventories | 56,865 | 56,109 |
| Current tax assets | – | 495 |
| Total current assets | 98,586 | 111,012 |
| Non-current assets | | |
| Other financial assets | 20,776 | 20,776 |
| Property, plant and equipment | 4,321 | 5,112 |
| Intangible assets | 92,994 | 112,424 |
| Deferred tax assets | 4,563 | 5,875 |
| Total non-current assets | 122,654 | 144,187 |
| Total assets | 221,240 | 255,199 |
| Current liabilities | | |
| Trade and other payables | 55,777 | 56,539 |
| Borrowings | 18,407 | 17,503 |
| Derivative financial instruments | 2,003 | 3,207 |
| Provisions | 9,428 | 8,573 |
| Current tax liabilities | 2,273 | – |
| Total current liabilities | 87,888 | 85,822 |
| Non-current liabilities | | |
| Payables | 13,247 | 13,603 |
| Borrowings | 24,600 | 48,886 |
| Derivative financial instruments | 559 | 1,905 |
| Provisions | 813 | 860 |
| Deferred tax liabilities | 13,682 | 13,808 |
| Total non-current liabilities | 52,901 | 79,062 |
| Total liabilities | 140,789 | 164,884 |
| Net assets | 80,451 | 90,315 |
| Equity | | |
| Contributed equity | 154,790 | 154,042 |
| Reserves | 156 | (957) |
| Accumulated losses | (74,495) | (62,770) |
| Total equity | 80,451 | 90,315 |

35. NOTES TO THE STATEMENT OF CASH FLOWS

(a) RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO OPERATING PROFIT AFTER INCOME TAX:

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| (Loss)/profit after income tax | (9,073) | 11,001 |
| Impairment of brand names | 11,875 | – |
| Impairment of goodwill | 7,000 | – |
| Impairment of business segments | 2,690 | – |
| Tax on restructure | 244 | – |
| Depreciation | 2,416 | 2,204 |
| Amortisation of other intangibles | 835 | 599 |
| Accelerated transaction cost at inception on bonds buy back | 327 | – |
| (Gain) on disposal of property, plant and equipment | (5) | (20) |
| Share-based payments expense | 322 | 39 |
| Share of profit of equity accounted for joint venture | – | (1,825) |
| Gain from disposal of joint venture | – | (1,961) |
| Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets: | | |
| (Decrease) in payables | (1,181) | (9,404) |
| Increase/(decrease) in other provisions | 1,645 | (280) |
| (Decrease) in employee entitlements | (905) | (518) |
| Increase in net tax liabilities | 3,443 | 448 |
| Decrease in receivables | 4,374 | 10,382 |
| Decrease in inventories | 199 | 14,261 |
| Net cash inflows from operating activities | 24,206 | 24,926 |

(b) NON-CASH INVESTING AND FINANCING ACTIVITIES

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Shares issued under Dividend Reinvestment Plan | 753 | 863 |

36. EVENTS OCCURRING AFTER BALANCE DATE

No matter or circumstance has arisen since 30 June 2017 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

37. PARENT ENTITY FINANCIAL INFORMATION

(a) SUMMARY FINANCIAL INFORMATION

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

| | 2017 \$'000 | 2016 \$'000 |
|--|----------------|----------------|
| Balance Sheet | | |
| Current assets | 2,414 | 4,889 |
| Total assets | 187,556 | 191,881 |
| Current liabilities | 97,260 | 70,962 |
| Total liabilities | 134,520 | 134,110 |
| Shareholders' equity | | |
| Issued capital | 154,790 | 154,042 |
| Reserves – cash flow hedges | (1,577) | (2,369) |
| – share-based payments | 1,734 | 1,412 |
| Retained earnings – 2015 reserve | 1,204 | 9,479 |
| Accumulated (losses) – 2016 reserve | (104,793) | (104,793) |
| Retained earnings – 2017 reserve | 1,678 | – |
| | 53,036 | 57,771 |
| Profit/(loss) for the period | 1,678 | (104,793) |
| Total comprehensive income/(loss) | 2,470 | (107,479) |

As a result of a review of intercompany receivables, an impairment of an intercompany balance of \$112.3 million had been recognised in the prior financial year.

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

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 August 2017.

SHARE CAPITAL

As at 31 August 2017 the ordinary share capital in the Company was held by the following number of shareholders:

| | TOTAL RANGE SHAREHOLDERS |
|---------------------------------------|-----------------------------|
| | 1 – 1,000 1,495 |
| | 1,001 – 5,000 1,414 |
| | 5,001 – 10,000 786 |
| | 10,001 – 100,000 1,104 |
| | 100,001 and over 108 |
| | Total 4,907 |
| Holding Less than a marketable parcel | 669 |

VOTING RIGHTS

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

TOP 20 LARGEST SHAREHOLDERS AS AT 31 AUGUST 2017

| | NO. OF SHARES | % |
|---|--------------------|---------------|
| 1. HSBC Custody Nominees (Australia) Limited | 12,213,432 | 11.75 |
| 2. J P Morgan Nominees Australia Limited | 12,048,366 | 11.59 |
| 3. Citicorp Nominees Pty Limited | 6,399,620 | 6.16 |
| 4. National Nominees Limited <DB A/C> | 2,262,361 | 2.18 |
| 5. UBS Nominees Pty Ltd | 1,797,958 | 1.73 |
| 6. BNP Paribas Noms Pty Ltd <DRP> | 1,734,809 | 1.67 |
| 7. B & R James Investments Pty Limited <JAMES SUPERANNUATION A/C> | 1,400,000 | 1.35 |
| 8. RBC Investor Services Australia Nominees Pty Ltd <VFA A/C> | 1,278,066 | 1.23 |
| 9. P & M Maguire Super Pty Ltd <P & M MAGUIRE S/F A/C> | 1,203,000 | 1.16 |
| 10. Mr Paul John Maguire | 1,000,000 | 0.96 |
| 11. Mr David Madden | 925,000 | 0.89 |
| 12. Aust Executor Trustees Ltd <FLANNERY FOUNDATION> | 732,932 | 0.71 |
| 13. Jilliby Pty Ltd | 722,000 | 0.69 |
| 14. Mr Kenneth Joseph Hall <HALL PARK A/C> | 710,451 | 0.68 |
| 15. Mr John Gassner + Mr Nathan Rothchild | 617,501 | 0.59 |
| 16. Mrs Goolestan Dinshaw Katrak | 550,000 | 0.53 |
| 17. Sandhurst Trustees Ltd <SISF A/C> | 530,000 | 0.51 |
| 18. HSBC Custody Nominees (Australia) Limited – A/C 2 | 491,708 | 0.47 |
| 19. Stirling Superannuation Pty Ltd | 450,000 | 0.43 |
| 20. Wr & Ma Beischer Super Pty Ltd <WR & MA BEISCHER S/F A/C> | 445,000 | 0.43 |
| | 47,512,204 | 45.71 |
| | 103,951,015 | 100.00 |

SUBSTANTIAL SHAREHOLDERS

The names and shareholdings of substantial shareholders who have notified the Company in accordance with Section 671B of the *Corporations Act 2001* as at 31 August 2017 are as follows:

| NAME OF SUBSTANTIAL HOLDER | NUMBER OF SHARES HELD | % OF TOTAL ISSUED SHARES |
|--|--------------------------|-----------------------------|
| Investors Mutual Limited | 9,620,364 | 10.24% |
| Microequities Asset Management Pty Ltd | 7,465,334 | 7.18% |
| Dimensional Fund Advisors Group | 5,206,423 | 5.01% |

UNQUOTED EQUITY SECURITIES

The number of Unquoted Equity Securities on issue as at 31 August 2017 is 2,571,000 performance rights.

MCPHERSON'S LISTING

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

CORPORATE DIRECTORY

MCPHERSON'S LIMITED

ACN: 004 068 419

ASX CODE: MCP

McPherson's Limited is a company limited by shares, incorporated and based in Australia. Its registered office and principal place of business is located at:

105 Vanessa Street

Kingsgrove NSW 2208

Telephone: (02) 9370 8000

Facsimile: (02) 9370 8091

Email: enquiries@mcpher.com.au

Website: www.mcphersons.com.au

AUDITORS

PricewaterhouseCoopers

One International Towers Sydney

Watermans Quay

Barrangaroo NSW 2000

SOLICITORS

Thomson Geer Lawyers

Level 25,

1 O'Connell Street

Sydney NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnston Street

Abbotsford Victoria 3067

Telephone within Australia: 1300 85 05 05

Telephone outside of Australia: +61 3 9415 5000

Facsimile: (03) 9473 2500

www.computershare.com

www.investorcentre.com/contactus

SHAREHOLDER ENQUIRIES

Shareholders who wish to contact the Company on any matter related to their shareholding are invited to telephone or write to the Share Registry. It is important that shareholders notify the Share Registry in writing if there is a change to their registered address. For added protection, shareholders should always quote their Shareholder Reference Number (SRN).



MCPHERSON'S

www.mcphersons.com.au