McPherson's Limited
ABN: 98 004 068 419
Half Year ended 31 December 2019

Results for Announcement to the Market

				$'000
Revenue	down	0.4%	to	**106,039**
Profit before tax	up	9.2%	to	**8,481**
Profit after tax	up	3.4%	to	**5,725**
Profit after tax attributable to members	up	3.4%	to	**5,725**

Dividends	**Amount per security**	**Franked amount per security**
Interim ordinary dividend	**4.0¢**	**4.0¢**
Previous corresponding period – ordinary dividend	**4.0¢**	**4.0¢**
Previous corresponding period – special dividend	**2.0¢**	**2.0¢**

Other Information	**December 2019 $**	**June 2019 $**
Net tangible asset per ordinary share	**0.12**	**0.15**

Payment date for interim ordinary dividend	**19 March 2020**
Record date for determining entitlements to interim ordinary dividend	**2 March 2020**

McPherson's Limited
Directors' Report
For the half year ended 31 December 2019

The Board of Directors present the following report on the consolidated entity (referred to hereafter as the Group) consisting of McPherson's Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2019.

(a) Directors

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

G.A. Cubbin (Chairman)
L. McAllister (Managing Director)
G. Peck (Chairman of the Audit, Risk Management and Compliance Committee)
J.M. McKellar (Chairman of the Nomination and Remuneration Committee)
G.R. Pearce
A.J. Mew

(b) Principal activities

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

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

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

(c) Review of operations

The consolidated $8.5 million profit before tax was 9.2% above the prior comparative period. No significant non-recurring items were recognised for the half year ended 31 December 2019 (1H19: nil).

The consolidated profit before tax, excluding the distribution of Trilogy and Karen Murrell from the previous corresponding period, increased by 31% to $8.5 million from $6.5 million. The distribution arrangements for Trilogy and Karen Murrell, which ceased effect from 30 June 2019, generated $6.3 million in sales revenue and $1.3 million in profit before tax in 1H19.

Divisional performance

Total sales revenue from continuing operations of $106.0 million was 0.4% below the prior comparative period (1H19: $106.5 million), and increased by 5.5% excluding Trilogy and Karen Murrell distribution revenue from the previous corresponding period.

This growth in sales revenue, excluding Trilogy and Karen Murrell distribution revenue, was largely due to significant growth from McPherson's key owned brand Dr. LeWinn's in both domestic and export markets, as well as revenue gains in the Manicare brand. This growth in sales revenue was offset by the grocery range rationalisation of Multix, as well as a decrease in sales revenue from Swisspers and Lady Jayne, which were impacted by increased competition from Private Label products.

McPherson's Limited
Directors' Report (continued)
For the half year ended 31 December 2019

(c) Review of operations (continued)

Cash flow, balance sheet and foreign exchange hedging
Net debt, excluding lease liabilities, remained stable at $19.6 million (1H19: $19.5 million), despite key investments made over the last 6 months in Aware ($3.0 million), our joint ventures ($1.8 million) and display stands ($1.0 million).

The Company's gearing ratio (net debt / total funds employed) has slightly increased from 17.1% to 17.6%, excluding lease liabilities, over the 6 months to 31 December 2019.

The Company's foreign exchange hedging policy remains unchanged, with estimated USD requirements hedged 12 months forward on a rolling basis using options and foreign exchange contracts.

(d) Dividends
The Directors have recommended that an interim ordinary dividend (fully franked) of 4.0 cents per share to be paid on 19 March 2020. These dividends were declared subsequent to the end of the half year period and therefore have not been recognised as a liability at 31 December 2019.

(e) Events subsequent to balance date
There has not arisen in the interval between the end of the half year and the date of this report, any item, transaction or event, of a material and unusual nature likely to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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

(g) Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Signed in accordance with a resolution of the Directors:

G. A. Cubbin
Chairman
19 February 2020

L. McAllister
Managing Director
19 February 2020

Auditor's Independence Declaration

As lead auditor for the review of McPherson's Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

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

S.T.M

Shannon Maher
Partner
PricewaterhouseCoopers

Sydney
19 February 2020

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McPherson's Limited
Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2019

	Note	**Half Year December 2019 $'000**	Half Year December 2018 $'000
Revenue			
Sales revenue		**106,039**	106,485
Interest		**203**	13
Total revenue		**106,242**	106,498
Expenses			
Materials and consumables		**(55,160)**	(58,136)
Employee costs		**(16,893)**	(15,486)
Advertising and promotions		**(11,388)**	(11,613)
Cartage and freight		**(3,121)**	(3,738)
Third party warehousing		**(1,136)**	(1,135)
Rental expenses		**(243)**	(2,150)
Depreciation		**(2,192)**	(701)
Amortisation		**(332)**	(310)
Other expenses		**(5,677)**	(5,017)
Borrowing costs		**(680)**	(446)
Share of net loss of joint ventures accounted for using the equity method		**(939)**	-
Profit before income tax expense		**8,481**	7,766
Income tax expense	5	**(2,756)**	(2,230)
Profit for the half year after tax		**5,725**	5,536

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

McPherson's Limited
Consolidated Statement of Comprehensive Income (continued)
For the half year ended 31 December 2019

	Note	**Half Year December 2019 $'000**	Half Year December 2018 $'000
Profit for the half year after tax		**5,725**	5,536
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in fair value of cash flow hedges		**(1,087)**	649
Exchange differences on translation of foreign operations		**117**	233
Income tax benefit / (expense) relating to these items		**312**	(207)
Other comprehensive income for the half year		**(658)**	675
Total comprehensive income for the half year		**5,067**	6,211

		Cents	Cents
Basic earnings per share	9	**5.4**	5.3
Diluted earnings per share	9	**5.4**	5.3

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

McPherson's Limited
Consolidated Balance Sheet
As at 31 December 2019

	Note	31 December 2019 $'000	30 June 2019 $'000
Current assets			
Cash and cash equivalents		**4,820**	10,472
Trade and other receivables		**40,415**	31,877
Inventories		**40,160**	36,688
Derivative financial instruments	2	**-**	797
Financial asset at fair value through profit or loss	2	**-**	2,934
Total current assets		**85,395**	82,768
Non-current assets			
Financial asset at fair value through other comprehensive income	2	**6,000**	-
Property, plant and equipment		**6,129**	5,930
Right-of-use assets		**6,062**	-
Intangible assets	6	**73,679**	73,973
Investment in joint ventures	10	**2,565**	716
Loan receivable from joint ventures	10	**2,697**	1,570
Deferred tax assets		**57**	86
Total non-current assets		**97,189**	82,275
Total assets		**182,584**	165,043
Current liabilities			
Trade and other payables		**37,466**	32,219
Borrowings	7	**28,748**	1,667
Provisions		**5,405**	6,098
Derivative financial instruments		**524**	234
Current tax liabilities		**1,483**	2,506
Total current liabilities		**73,626**	42,724
Non-current liabilities			
Provisions		**783**	709
Borrowings	7	**5,658**	16,269
Deferred tax liabilities		**7,158**	8,813
Contingent consideration	10	**1,996**	-
Total non-current liabilities		**15,595**	25,791
Total liabilities		**89,221**	68,515
Net assets		**93,363**	96,528
Equity			
Contributed equity	8	**158,810**	157,751
Reserves		**4,173**	4,674
Accumulated losses		**(69,620)**	(65,897)
Total equity		**93,363**	96,528

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

McPherson's Limited
Consolidated Statement of Changes in Equity
For the half year ended 31 December 2019

	Contributed equity $’000	Reserves $’000	Accumulated losses $’000	Total equity $’000
Balance at 30 June 2019	**157,751**	**4,674**	**(65,897)**	**96,528**
Adoption of new AASB 16 Leases	**-**	**-**	**(3,061)**	**(3,061)**
Restated balance at 1 July 2019	**157,751**	**4,674**	**(68,958)**	**93,467**
Profit for the half year	-	-	5,725	5,725
Other comprehensive income	-	(658)	-	(658)
Total comprehensive income	**-**	**(658)**	**5,725**	**5,067**
Transactions with shareholders				
Shares issued, net of transaction costs and tax	1,059	-	-	1,059
Dividends provided for or paid	-	-	(6,387)	(6,387)
Share-based payment transactions with employees	-	157	-	157
Total transactions with shareholders	**1,059**	**157**	**(6,387)**	**(5,171)**
Balance at 31 December 2019	**158,810**	**4,173**	**(69,620)**	**93,363**

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

McPherson's Limited
Consolidated Statement of Changes in Equity (continued)
For the half year ended 31 December 2019

	Contributed equity $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	**155,882**	**4,828**	**(70,690)**	**90,020**
Profit for the half year	-	-	5,536	5,536
Other comprehensive income	-	675	-	675
Total comprehensive income	**-**	**675**	**5,536**	**6,211**
Transactions with shareholders				
Shares issued, net of transaction costs and tax	557	-	-	557
Dividends provided for or paid	-	-	(2,619)	(2,619)
Share-based payment transactions with employees	-	105	-	105
Total transactions with shareholders	**557**	**105**	**(2,619)**	**(1,957)**
Balance at 31 December 2018	**156,439**	**5,608**	**(67,773)**	**94,274**

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

McPherson's Limited
Consolidated Statement of Cash Flows
For the half year ended 31 December 2019

	Note	**Half Year December 2019 $'000**	Half Year December 2018 $'000
Cash flows from operating activities			
Receipts from customers inclusive of GST		**112,028**	115,770
Payments to suppliers and employees inclusive of GST		**(106,690)**	(113,721)
Interest received		**203**	13
Interest and borrowing costs paid		**(680)**	(446)
Income taxes paid		**(3,793)**	(3,959)
Net cash inflows / (outflows) from operating activities		**1,068**	(2,343)
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		**(1,292)**	(2,979)
Payments for purchase of intangible assets		**(29)**	-
Loan to joint ventures		**(1,281)**	(1,183)
Payments for financial assets at fair value through other comprehensive income		**(3,000)**	-
Payments for acquisition of joint ventures	10	**(531)**	(1,158)
Net cash (outflows) from investing activities		**(6,133)**	(5,320)
Cash flows from financing activities			
Proceeds from borrowings		**38,736**	34,659
Repayment of borrowings		**(32,000)**	(26,000)
Repayment of leases		**(1,785)**	-
Dividends paid		**(5,546)**	(2,062)
Net cash (outflows) / inflows from financing activities		**(595)**	6,597
Net (decrease) / increase in cash held		**(5,660)**	(1,066)
Cash at beginning of the half year		**10,472**	8,607
Effects of exchange rate changes on cash		**8**	92
Cash and cash equivalents at end of the half year		**4,820**	7,633

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

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

1. Significant Accounting Policies

McPherson’s Limited is a company domiciled in Australia. The consolidated interim financial report for the half year period ended 31 December 2019 comprises McPherson’s Limited and the entities it controlled at the end of, or during, the half year period (the “Group”).

(a) Basis of Preparation

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

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim report is to be read in conjunction with the Annual Report for the year ended 30 June 2019 and the announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period, except for the changes in accounting policies and the adoption of new and amended standards set out hereafter.

The interim financial report has been prepared on the basis of historical cost, except where assets and liabilities are stated at their fair values in accordance with relevant accounting policies.

New and amended standards adopted by the Group

The group has applied the new AASB 16 Leases for the first time for the annual reporting period commencing 1 July 2019.

The impact of the adoption of the new AASB 16 Leases and new accounting policies are disclosed in Note 1(b) below.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

(b) Changes in accounting policies

This section explains the impact of the adoption of AASB 16 Leases on the Group's financial statements and also discloses new accounting policies that have been applied from 1 July 2019.

AASB 16 Leases

The Group adopted the standard using the modified transition approach which means that the cumulative impact of adoption has been recognised in retained earnings as of 1 July 2019 and that the comparatives have not been restated, as follows.

Consolidated Balance Sheet (extract)	30 June 2019 as originally presented $'000	Adoption of AASB 16 $'000	1 July 2019 restated $'000
Non-current assets			
Right-of-use asset	-	6,667	6,667
Equity			
Accumulated losses	65,897	3,061	68,958
Current liabilities			
Lease liability	-	(3,910)	(3,910)
Non-current liabilities			
Deferred tax liability	(8,813)	1,301	(7,512)
Lease liability	-	(7,119)	(7,119)

(i) Measurement of lease liabilities

The lease liabilities are measured as the present value of the remaining lease payments from the adoption of the new standard on 1 July 2019, using:

- Fixed payments, including CPI and market review increases, less any lease incentives receivable;
- Lease payments with reasonably certain extension options.

The lease payments are discounted using the Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 is 5.67% across the Group.

The lease liabilities will be decreased over time by rental payments, and give rise to interest expenses.

(ii) Measurement of right-of-use assets

The right-of-use assets are measured as if AASB 16 had always applied, as the present value of the lease payments, and are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(iii) Lease term

The Group determines the lease term as the non-cancellable period of a lease, together with the periods covered by an option to extend the lease if it is reasonably certain to exercise that option.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

(b) Changes in accounting policies (continued)

Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income are equity investments which are not held for trading, and for which the Group's management has elected to present fair value gains and losses in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Significant Accounting Estimates

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

The areas involving a higher degree of judgement or complexity, 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 6 for details of these assumptions.

Provision for stock obsolescence

Inventories are valued at the lower of cost and net realisable value. Estimates are required to be made in relation to the recoverable amount of inventory. These estimates are based on projected sales volumes and sell prices determined, and estimates of net realisable values for stock excess volumes.

(d) Reclassification

Certain comparative amounts have been reclassified to conform with the current period classification to better reflect the nature of the financial position of the Group.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

2. Fair Value Measurement of Financial Instruments

The Group holds the following financial instruments which are measured and recognised at fair value at 31 December 2019 and 30 June 2019 on a recurring basis:

Recurring fair value measurements	31 December 2019				30 June 2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value								
Derivative financial instruments	-	-	-	-	-	797	-	797
Financial assets through OCI	-	6,000	-	6,000	-	-	-	-
Financial assets through profit and loss	-	-	-	-	-	-	2,934	2,934
Total financial assets at fair value	-	6,000	-	6,000	-	797	2,934	3,731

Recurring fair value measurements	31 December 2019				30 June 2019			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities at fair value								
Derivative financial instruments	-	524	-	524	-	234	-	234
Total financial liabilities at fair value	-	524	-	524	-	234	-	234

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

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

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

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

The fair value of Financial Assets at Fair Value Through Other Comprehensive Income, being an investment in Aware Environmental Limited, is determined based on the share price of the latest capital raising of Aware Environmental Limited.

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

As at 30 June 2019, the Group's Financial Assets at Fair Value through Profit or Loss, being the convertible notes with Aware Environmental Limited, were classified as Level 3 as the timing of cash flows, discount rates, conversion scenario, volatility and dividend yield were significant non-observable inputs. These convertible notes were converted into shares in Aware Environmental Limited on 11 October 2019, which are classified as Financial Assets through Other Comprehensive Income as at 31 December 2019.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

3. 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 segment are eliminated on consolidation.

Revenues of approximately $17,213,000 (2019: $17,378,000) and $16,437,000 (2019: $16,933,000) were derived from two external customers. These revenues were attributable to the Australian operation.

Sales revenues derived from Access Brand Management (ABM), the Group’s key China facing customer, are classified as Australian revenue as ABM is an Australian entity and products are physically supplied to ABM’s Australian warehouse.

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

3. Segment Information (continued)

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

	Australia $'000	New Zealand $'000	Rest of the World $'000	Inter-segment eliminations $'000	Consolidated $'000
31 December 2019					
Sales to external customers	**97,599**	**4,955**	**3,485**	**-**	**106,039**
Inter-segment sales	1,861	-	910	(2,771)	-
Total sales revenue	**99,460**	**4,955**	**4,395**	**(2,771)**	**106,039**
Other revenue / income (excluding interest)	-	-	-	-	-
Total segment revenue and other income (excluding interest)	**99,460**	**4,955**	**4,395**	**(2,771)**	**106,039**
EBITDA before significant items	11,416	(163)	432	-	11,685
Depreciation and amortisation expense	(2,157)	(144)	(223)	-	(2,524)
Segment result before significant items	**9,259**	**(307)**	**209**	**-**	**9,161**
Significant items before tax (excluding borrowing related costs)	-	-	-	-	-
Segment result including significant items before tax	**9,259**	**(307)**	**209**	**-**	**9,161**
Borrowing costs					(680)
Profit before income tax					**8,481**
Income tax expense					(2,756)
Profit after income tax					**5,725**
Segment assets	**153,193**	**3,838**	**25,553**	**-**	**182, 584**

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

3. Segment Information (continued)

	Australia $'000	New Zealand $'000	Rest of the World $'000	Inter-segment eliminations $'000	Consolidated $'000
31 December 2018					
Sales to external customers	**97,660**	**4,898**	**3,927**	**-**	**106,485**
Inter-segment sales	1,429	-	1,153	(2,582)	-
Total sales revenue	**99,089**	**4,898**	**5,080**	**(2,582)**	**106,485**
Other revenue / income (excluding interest)	-	-	-	-	-
Total segment revenue and other income (excluding interest)	**99,089**	**4,898**	**5,080**	**(2,582)**	**106,485**
EBITDA before significant items	8,333	257	622	-	9,212
Depreciation and amortisation expense	(869)	(101)	(43)	-	(1,013)
Segment result before significant items	**7,464**	**156**	**579**	**-**	**8,199**
Significant items before tax (excluding borrowing related costs)	-	-	-	-	-
Segment result including significant items before tax	**7,464**	**156**	**579**	**-**	**8,199**
Net borrowing costs					(433)
Profit before income tax					**7,766**
Income tax expense					(2,230)
Profit after income tax					**5,536**
Segment assets	**144,547**	**3,410**	**25,179**	**-**	**173,136**

McPherson's Limited
Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

4. Dividends

Details of dividends declared or paid during or subsequent to the half year ended 31 December 2019 are as follows:

	Half Year December 2019 $'000	Half Year December 2018 $'000
Ordinary		
Final 30 June 2019 dividend of 6.0 cents per fully paid share (2018: 2.5 cents per fully paid share) fully franked at 30%	**6,387**	2,619
Dividends not recognised at the end of the half year		
Since the end of the half year, the Directors have declared a fully franked interim ordinary dividend of 4.0 cents per fully paid share (2019: 4.0 cents per fully paid share), and no special dividend (2019: 2.0 cents per fully paid share). The aggregate amount of the dividends to be paid on 19 March 2020 but not recognised as a liability at half year end is:	**4,274**	6,308

Dividend Reinvestment Plan (DRP)
The Company's DRP will operate at a discount of 2.5% and will apply to the upcoming interim dividend. Shareholders on the register at the record date of 2 March 2020 will be eligible for the dividend. Shareholders wishing to participate in the DRP need to have elected to do so by no later than the trading day immediately following the record date, or by 3 March 2020. Shareholders that have previously elected to participate in the DRP will continue to do so on the same basis unless a formal election to vary or cease participation is provided by 3 March 2020.

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

5. Income Tax Expense

	Half Year December 2019 $'000	Half Year December 2018 $'000
Profit before tax	**8,481**	7,766
Prima facie income tax at 30%	**2,544**	2,330
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Tax rate differences in overseas entities	**(32)**	(115)
Share of net loss of joint ventures	**294**	-
Share-based payments expense	**115**	32
New Zealand tax losses not recognised	**95**	-
Over provision in prior periods	**(281)**	(59)
Other	**21**	42
Income tax expense	**2,756**	2,230

McPherson's Limited
Notes to the Consolidated Financial Statements
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6. Intangible Assets

	31 December 2019 $'000	30 June 2019 $'000
Goodwill	**15,764**	15,757
Brand names	**56,827**	56,827
Other intangibles	7,984	8,439
Accumulated amortisation	(6,896)	(7,050)
Total other intangibles	**1,088**	1,389
Total intangibles	**73,679**	73,973

Reconciliations

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

	Goodwill $'000	Brand names $'000	Other intangibles $'000	Total $'000
Carrying amount at 1 July 2019	15,757	56,827	1,389	73,973
Additions	-	-	29	29
Amortisation charge	-	-	(332)	(332)
Foreign currency exchange differences	7	-	2	9
Carrying amount at 31 December 2019	**15,764**	**56,827**	**1,088**	**73,679**

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

Impairment testing

Goodwill

Goodwill is allocated to the following cash generating unit:

	31 December 2019 $'000	30 June 2019 $'000
Australia	**15,764**	15,757

McPherson's Limited
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6. Intangible Assets (continued)

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 and forecasts covering a one year period. Cash flows beyond the projected period are extrapolated using estimated growth rates. In performing the value-in-use calculations for each cash generating unit, the Group has applied a post-tax discount rate to discount the forecast future attributable post-tax cash flows.

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

	31 December 2019				30 June 2019			
	Estimated Growth Rates Year 2 Onwards	**Terminal Growth Rate**	**Post-Tax Discount Rate**	**Pre-Tax Discount Rate**	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate
Australia	**2.0%**	**2.0%**	**10.0%**	**13.7%**	2.0%	2.0%	10.0%	13.7%

In addition to the above, it is noted that the year one cash flow projection is a key assumption within the value-in-use calculation. The cash flow projection used for the year one cash flows are based on the Board approved financial forecasts. The forecasts reflect the Board's expectation of cash flows for the Australian CGU arising from profit optimisation initiatives, new product launches and the inventory rationalisation project.

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

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

The value-in-use calculations are prepared using a discounted cash flow analysis of the future net contribution expected to be generated by the brand, which is based on financial budgets and forecasts covering a one year period. Cash flows beyond the projected period are extrapolated using estimated growth rates. In performing the value-in-use calculations the Group has applied a post-tax discount rate to discount the forecast future attributable post-tax cash flows.

The assumptions used in the value-in-use calculations are set out below.

31 December 2019				30 June 2019			
Estimated Growth Rates Year 2 Onwards	**Terminal Growth Rate**	**Post-Tax Discount Rate**	**Pre-Tax Discount Rate**	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate
1.0% - 15%	**1.0%-3.0%**	**10.0%**	**13.7%**	1.0% - 15%	1.0%-3.0%	10.0%	13.7%

Impact of possible changes in key assumptions
If the year one projected sales by brand were 10.0% below the current estimates used in the value-in-use calculations, a brand name impairment charge of $4,396,000 would arise.

If the year one contribution margin percentages were 2.0% below the current estimates used in the value-in-use calculations, a brand name impairment charge of $2,010,000 would arise.

If the terminal year growth rates used in the value-in-use calculations were to be 1.0% lower than management's estimates, a brand name impairment charge of $905,000 would arise.

McPherson's Limited
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7. Borrowings

	31 December 2019 $'000	30 June 2019 $'000
Current		
Bank loans – secured	24,500	1,667
Lease liabilities	4,284	-
Debt issue costs	(36)	
Total current	**28,748**	1,667
Non-Current		
Bank loan – secured	**-**	16,333
Lease liabilities	5,658	-
Debt issue costs	-	(64)
Total non-current borrowings	**5,658**	16,269
Total borrowings	**34,406**	17,936

The Group's facility is denominated in Australian dollars and is expiring on 31 August 2020.

The facility limit is $45,900,000 (2019: $46,900,000). Drawings under this facility are required to be backed by eligible trade debtor and inventory assets.

As at 31 December 2019, the Group was compliant with its debt covenants.

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

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

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7. Borrowings (continued)

Maturity profile of the Group's borrowings

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

	Less than 1 Year $'000	Between 1 & 2 Years $'000	Between 2 & 3 Years $'000	Between 4 & 6 Years $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
31 December 2019						
Payables	37,466	-	-	-	37,466	37,466
Borrowings	24,800	-	-	-	24,800	24,500
Total non-derivative financial liabilities	**62,266**	**-**	**-**	**-**	**62,266**	**61,966**
30 June 2019						
Payables	32,219	-	-	-	32,219	32,220
Borrowings	2,053	16,397	-	-	18,450	17,936
Total non-derivative financial liabilities	**34,272**	**16,397**	**-**	**-**	**50,669**	**50,156**

8. Contributed Equity

	31 December 2019 $'000	30 June 2019 $'000
Issued and paid up capital:		
106,843,303 (June 2019: 106,329,245) fully paid ordinary shares	**158,810**	157,751

Movements in ordinary share capital

Date	**Details**	**Number of Shares**	**Share Price $**	**$'000**
1 July 2019	Opening balance	106,329,245		157,751
31 July 2019	Employee Shares	120,771	1.76	213
26 September 2019	Dividend Reinvestment Plan	391,541	2.19	857
23 October 2019	Employee Shares	1,746	2.36	4
	Transactions costs associated with shares issued			(21)
	Tax effect of share issue transaction costs recognised directly in equity			6
31 December 2019	**Closing Balance**	**106,843,303**		**158,810**

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9. Earnings Per Share

	Half Year December 2019 Cents	Half Year December 2018 Cents
Basic earnings per share	**5.4**	5.3
Diluted earnings per share	**5.4**	5.3

Weighted average number of shares used as the denominator

	Half Year December 2019 Number of shares	Half Year December 2018 Number of shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**106,637,116**	104,918,748
Adjustments for calculation of diluted earnings per share:		
Commencement rights granted to the Managing Director	**263,000**	224,412
Shares estimated to be issued under employee share scheme are dilutive and therefore are included in the calculation of diluted earnings per share	**1,803**	111,324
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**106,901,919**	105,254,484

10. Investment in joint ventures

(a) Formation of the My Kart joint venture (Soulful)

On 23 July 2019, the Group announced the acquisition of 51% interest in the joint venture My Kart Pty Ltd from privately owned Australian companies The Beetle Co Pty Ltd, Sandybanks Marketing Pty Ltd and Sodor Investments Pty Ltd ("Soulful shareholders"). The Group's investment for this holding comprised the following:

- $0.5 million equity in My Kart;
- $0.5 million shareholder loan to My Kart; and
- $0.2 million working capital loan to My Kart.

My Kart is a consumer goods business based on adult and student milk formulas, pre-packaged dried and organic foods, and digestive related tonics and bars trading under the "Soulful" brand.

Under the terms of the agreement, the parties entered into the following transactions:

- Earn out payable by the Group, based on a normalised EBIT multiple of My Kart for the financial years ending 30 June 2020, 2021 and 2022. The Group recognised on acquisition date an earn out liability of $2.0 million.
- The Group has the option to call, after 30 June 2024, the 49% interest in My Kart owned by the Soulful shareholders; and
  The Soulful shareholders has the option to put its 49% interest in My Kart to the Group after 30 June 2024.

McPherson's Limited
Notes to the Consolidated Financial Statements
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10. Investment in joint ventures (continued)

(b) Formation of the Dr. LeWinn's China Limited joint venture

On 11 November 2019, the Group announced a joint venture with Access Brand Management (ABM) in order to expand sales of Dr. LeWinn's branded products in Greater China, and to jointly develop new brands and products for the Greater China market.

Under the terms of the joint venture agreement:

- The Group and ABM hold respectively 49% and 51% of the HK$100 issued share capital of the joint venture, incorporated in Hong Kong;
- MCP and ABM will execute an Exclusive Distribution Agreement for the Dr. LeWinn's brand in Greater China until 30 June 2022;
- ABM commits to increase its purchases of Dr. LeWinn's products by a minimum compound annual growth rate of 5% for the financial years ended 30 June 2020, 2021 and 2022; and
- If ABM does not achieve a target of $35 million in annual purchases of Dr. LeWinn's products from McPherson's in any year prior to 30 June 2022, or aggregate purchases of Dr. LeWinn's products from McPherson's of $82.5 million over the three-year period ended 30 June 2022, then the Group may elect to acquire the trademarks of the joint venture for a value agreed with ABM.

(c) Interest in joint ventures

The following tables summarise financial information of the equity accounted investees as at 31 December 2019.

Name of entity	Country of incorporation	% of ownership interest	Nature of relationship	Measurement method	Quoted fair value $'000	Investment carrying amount $'000
Kotia Limited	New Zealand	51	Joint venture	Equity method	-*	71
Sugarbaby & Co Pty Ltd	Australia	51	Joint venture	Equity method	-*	-
My Kart Pty Ltd	Australia	51	Joint venture	Equity method	-*	2,419
Dr. LeWinn's China Limited	Hong Kong	49	Joint venture	Equity method	-*	75
Total						**2,565**

*Private entity – no quoted price available

The new ventures (My Kart Pty Ltd and Dr. LeWinn's China Limited) are deemed to represent a joint venture on the basis that the unanimous consent of both shareholders is required for several key decisions.

Consequently, the Group does not consolidate the results of these joint ventures, rather it equity-accounts for its share of the joint ventures' profit or loss and movements in other comprehensive income.

Any dividends received from the joint ventures in future periods will be recognised as dividend income and a reduction in the carrying amount of the Group's investment in this entity.

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Notes to the Consolidated Financial Statements
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10. Investment in joint ventures (continued)

(c) Interest in joint ventures (continued)

Movements in carrying amount of equity accounted investments	**31 December 2019 $'000**	**30 June 2019 $'000**
Opening balance	716	-
Acquisition of investment in joint ventures	2,648	1,195
Share of joint ventures' net profit / (loss)	(939)	(479)
Share of joint ventures' loss recognised against receivable balances	140	-
Dividends	-	-
Carrying amount of equity accounted investments	**2,565**	**716**

Share of joint ventures' statement of financial position	**31 December 2019 $'000**	**30 June 2019 $'000**
Current assets	807	843
Non-current assets	5,652	2,795
Total assets	**6,459**	**3,638**
Current liabilities	(3,028)	(1,963)
Non-current liabilities	(838)	(833)
Total liabilities	**(3,866)**	**(2,796)**
Net assets	**2,593**	**842**

(d) Loan receivable from joint ventures

The following table summarises financial information in relation to the Group's loans to the joint ventures as at 31 December 2019:

Name of entity	**Loans from the Group**	**Carrying amount $'000**	**Interest per annum**	**Term**
Kotia Limited	Shareholder loan	2,125	6%	The loan is not expected to be repaid within 12 months
Sugarbaby & Co Pty Ltd	Shareholder loan	60	5%	The loan is not expected to be repaid within 12 months
My Kart Pty Ltd	Shareholder loan	469	6%	The loan is not expected to be repaid within 12 months
	Working capital loan	113	-	The loan is not expected to be repaid within 12 months
Share of net loss exceeding carrying value of investment in joint venture		(70)		
Total		**2,697**		

The purpose of these loans is to fund the working capital requirements of the joint ventures.

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12. Contingent Liabilities

From time to time, the Group is subject to claims and litigations during the normal course of business. The Board has given consideration to such matters, which are or may be subject to litigation at year end and, is of the opinion that no material liability exists other than specifically provided in these financial statements.

13. Subsequent Events

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

McPherson's Limited and Controlled Entities
Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 5 to 26 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and

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

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

G. A. Cubbin
Chairman
19 February 2020

L. McAllister
Managing Director
19 February 2020

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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of McPherson's Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of McPherson's Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

S.T.M

Shannon Maher
Partner

Sydney
19 February 2020