METHVEN

130

YEARS OF INNOVATION

INTERIM REPORT 2017

CONTENTS

SUMMARY REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016[1]

Guidance maintained at lower end of range after challenging first quarter

NZ $000	6 months ended December **2016 Unaudited**	2015 Unaudited	Variance %	Constant Currency[4] Variance %
Sales revenue	**49,911**	52,902	-5.7%	+1.9%
Net profit after tax	**3,196**	4,676	-31.7%	-21.3%
NPAT % of revenue	**6.4%**	8.8%	-2.4 ppts	-2.0 ppts
Net Debt[2]	**25,061**	21,354	+17.4%	

Consistent with previous reports, commentary focuses on results on a constant currency basis due to significant movement in fx translation rates during the period. Constant currency is the individual trading entities' performance in their local currency translated into NZ$ at the previous year's fx rates (detailed in footnote[4]).

[1] During the previous financial year, Methven changed its balance date from March to June and as a result, the unaudited financial statements on pages 18 to 29 for the 6 months ended December 2016 compare to a 9 month period ended December 2015. To assist with comparability all results presented on pages 4 to 16 are for the 6 months ended 31 December 2016 and are compared against the 6 months ended 31 December 2015 and are unaudited.

[2] Refer to the reconciliation of Net debt to the consolidated balance sheet in note 10 of the financial statements.

[3] Earnings before interest and tax (EBIT)

[4] Constant currency is the individual trading entities' performance in their local currency translated into NZ$ at the previous year's fx rates. These rates are GBP/NZD 0.4325, AUD/NZD 0.9170 and RMB/NZD 4.1895.

HIGHLIGHTS

- Sales finished at $49.9m, a 1.9% increase on a constant currency[4] basis, despite one-off impacts in the period.
- NPAT (Net Profit After Tax) finished at $3.2m, representing a 21.3% decrease on a constant currency[4] basis, reflecting the impact of significant one-offs in the first quarter as detailed below, and continued future-focused investment.
- The significant one-offs in the first quarter were:
  - Australian market sell-in impacted by Masters clearance activity and the impact of AU$ devaluation. Price increase passed in December 2016 to offset.
  - New Zealand sales in to the market impacted by customer change in stock holding (underlying demand solid), and
  - Supply chain disruption affecting factory earnings.
- Second quarter sales and profit showed significant improvement over first quarter and year-on-year.
- The UK market delivered sales growth of 5.2% and an earnings[3] increase of 25.1%, as contracts won over the course of the previous year commenced.
- Two new national distribution agreements confirmed in the UK (financial benefit expected to start in second half).
- Aurajet® became the most awarded product in the history of Methven, and was the catalyst for increased distribution in the UK and internationally.
- Over $2.0m invested in future-focused activity, including new product and brand development, building digital and manufacturing capability.
- Two lost time injuries reported in the last six months (-50% vs. previous period) and ACC Tertiary accreditation retained in NZ highlight improvements and focus on Health and Safety. Move to total reportable and near miss reporting from June 2017. Thorough review of global Health and Safety standards and expectations completed.
- Net Debt[2] increased to $25.1m as inventory was built to cover an early Chinese New Year and an anticipated higher demand over the next quarter.
- The Directors declared a partially imputed interim dividend of 4.0 cents per share payable on 31 March 2017.
- Full year guidance cautiously maintained, though the significant one-offs in the first quarter have resulted in the NPAT guidance moving toward the lower end of the range.
- New shower technology expected to launch in H1 FY18.
- Actively working on projects that support delivery of the Methven 130 goals and financial targets.

OVERVIEW

A challenging first six months of FY17, impacted by significant one-offs in the first quarter, which resulted in sales and profit being below our expectations. Whilst we understand the cause, it's still important to recognise these results are not in line with our capability.

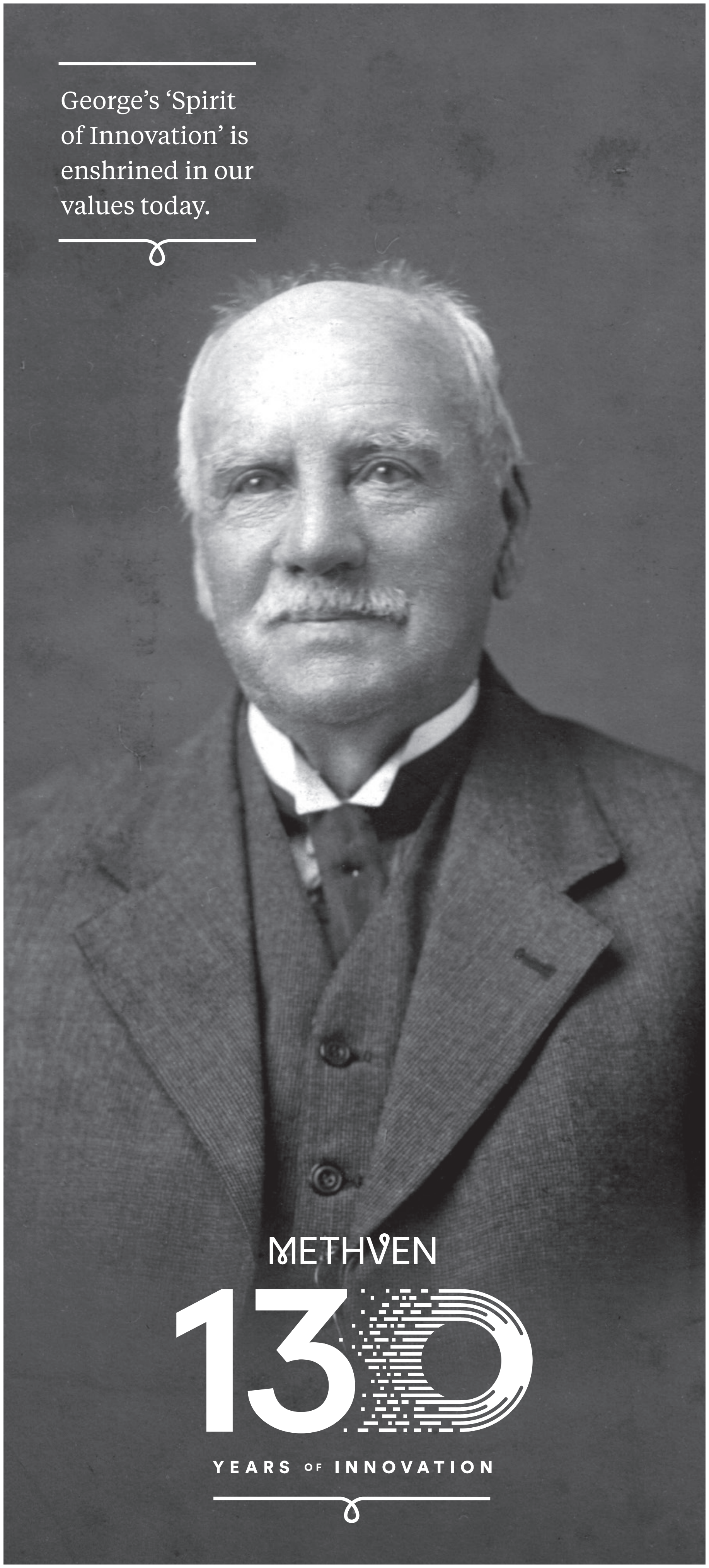
The significant one-offs in the first quarter were: Masters, the second largest DIY retailer in Australia, closed the business for good in December following months of clearance activity that undermined rest of market demand and impacted our sales in to other customers; Year-on-year impact of AU$ devaluation vs. US$ (price increase passed to customers in December 2016 to offset); Sales in to the New Zealand market impacted by customer change in stock holding (underlying demand solid); and supply chain disruption affecting factory earnings. It is encouraging that despite these significant one-offs in the first quarter, we are still cautiously forecasting opportunities to be converted in the second half, though full year performance is expected to be towards the lower end of our NPAT guidance range.

We invested an additional $2.0m in the business over this six month period in order to ensure we have the internal capability and external partners who can support our goal to deliver long term shareholder growth.

We have achieved some notable successes over this half, but particular mention needs to be made of the two new national distribution agreements gained in the UK. Financial benefits are expected to start in the second half and will significantly strengthen our brand and business in the UK market, and open up the opportunity for long term profitable growth and brand credibility in this crucial market. It's also encouraging that we have another new shower technology ready to launch in late 2017, further evidencing our global capability in this area. We are also seeing positive signs with new distribution agreements in the China market that while immaterial at present, bode well for the future. Finally, conversations are ongoing with potential partners in order to deliver extensions to our international distribution, and better leverage Methven I.P. and distribution capability.

We are very focused on the delivery of outcomes that support our Methven 130 goals, and are actively working on initiatives that support the delivery of this ambitious plan. We will naturally update shareholders as activities are agreed.

We continue our work on long term planning for the Group, and kicked off the process in June 2016 to align the next stage of our strategic plan after Methven 130, with the clear aim to support longer term profitable growth and a business that realises its true potential for all shareholders.



GEORGE INDUCTED INTO THE BUSINESS HALL OF FAME

- The team were absolutely delighted and incredibly proud to hear the news that George Methven (or simply George as we call him) is to be posthumously inducted as a Laureate into the NZ Business Hall of Fame on Thursday 27 July 2017.
- It's particularly thrilling that George has earned this honour in the year that we celebrate our 130th anniversary, celebrate our confidence in the future, and when we are targeting to grow our revenue to $130 million by June 2018.
- George was a true pioneer, rising from humble origins in Dundee, Scotland, and emigrating to New Zealand in 1874. His strong engineering background meant he soon found work, and in 1886 he set up his own engineering business from a workshop in the back of his house. George was a clever man, constantly developing products to make life easier in the home, a principle that we hold dear today. The 'Spirit of Innovation' that was a founding principle of the business, is a key driver of current and anticipated future growth and is enshrined in our values today.
- He was also fascinated by the new invention of the automobile and in 1903, actually built himself a car – the first locally made car in Dunedin.
- It's timely that in the year we celebrate this anniversary and this prestigious award, we recognise that Aurajet® became the most awarded product in the history of Methven.

NEW ZEALAND BUSINESS
HALL of FAME

Brought to you by YOUNG ENTERPRISE TRUST

BUSINESS REVIEW

Our Goals in FY17

Revenue growth in New Zealand	On track to deliver growth in H2
Profitable growth in Australia	On track to deliver growth in H2
Double digit sales and profit growth in UK	On track to deliver growth in H2
National distribution in UK	On track
Market share growth of differentiated shower offer (Satinjet® and Aio™)	On track
Heshan utilisation increased by 10%	On track to deliver in H2
Improvement in Group NPAT % to sales	On track to deliver in H2

REVENUE GROWTH IN NEW ZEALAND

- Revenue was flat year-on-year in the New Zealand market, with sales in to customers negatively impacted by a stock reduction in a major partner in Q1 FY17. Investment continued in the team and in marketing activity to ensure enhanced products and services are available to support our long term profitable growth targets.

PROFITABLE GROWTH IN AUSTRALIA

- Total revenue increased by 1.5%. This is below our expectations and was primarily as a result of the impact of Masters' clearance activity in Australia on rest of market demand. Masters has now closed and sell-out activity has been strong post the closure. Earnings decreased by 21.4% or $353k as a result of us not passing on the full impact of AU$ devaluation. A price increase was passed to the market in December 2016.

DOUBLE DIGIT SALES AND PROFIT GROWTH IN UK

- Revenue increased by 5.2% as contracts won in FY16 started to benefit the business. Earnings increased by 25.1% as a result of minimal extra infrastructure to support delivery of these new contract wins.

NATIONAL DISTRIBUTION IN UK

- Two new national distribution agreements were gained in the UK market for roll-out in Q4 FY17 and Q1 FY18. These two agreements reflect the hard work and focus of the team to deliver distribution that enables us to communicate our brand, product and technology story nationally in the UK for the first time, and give us confidence in achieving our long term growth targets in the UK.

MARKET SHARE GROWTH OF DIFFERENTIATED SHOWER OFFER (SATINJET® AND AIO™)

- Strong sales performance from Aio™ with good sell-out reported in all markets and Aurajet® Phase 2 performing in line with our expectations. Activity planned across the second half supports a positive outlook for our differentiated shower offering in both Satinjet® and Aurajet®.

HESHAN UTILISATION INCREASED BY 10%

- Group-wide projects underway to consolidate supply and manufacturing in Heshan. These projects will be realised in the second half, with an expectation that benefits will accrue during FY18.

IMPROVEMENT IN GROUP NPAT % TO SALES

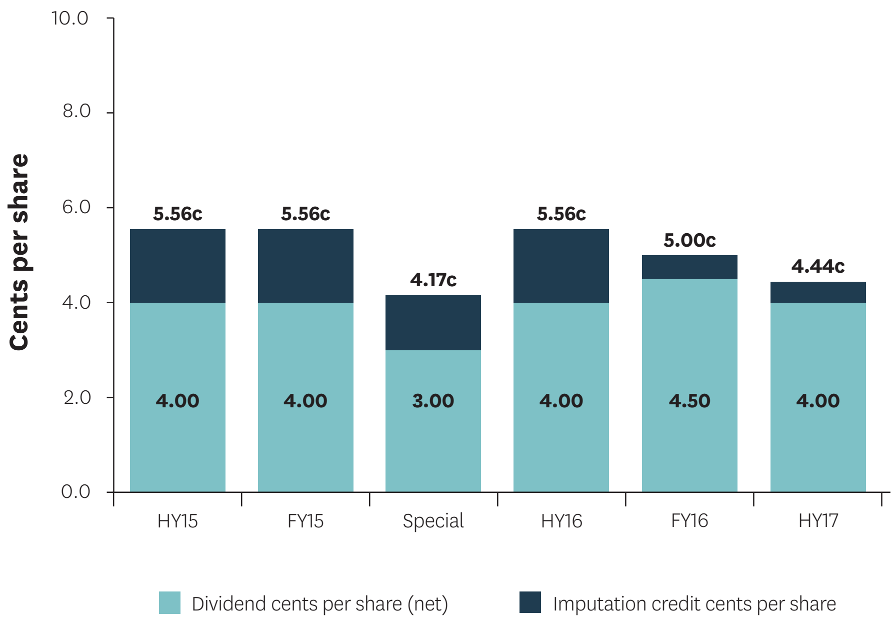
- Group NPAT % dropped 2 ppts (from 8.8 to 6.8 ppts) in constant currency[4]. Four main factors were responsible for this impact - 1; AU$ devaluation, 2; Supplier management issue affecting the Heshan factory earnings and increased air freight costs, 3; Increased investment in products, team and services for the Group and direct resource for the NZ market, and 4; Costs associated with a planned, but ultimately unsuccessful, acquisition.

NET DEBT

Net Debt[2] increased to $25.1m, as inventory was built to cover an early Chinese New Year and an anticipated higher demand over the next quarter.

INTERIM DIVIDEND

The Directors have declared a partially imputed interim dividend of 4.0 cents per share to be paid on 31 March 2017.



MARKET REVIEW

NEW ZEALAND

NZ $000	2016 Unaudited	2015 Unaudited	Variance %
	6 months ended December		
Sales revenue	**17,802**	17,797	0.0%
EBIT[3]	**2,239**	2,338	-4.2%
EBIT % of revenue	**12.6%**	13.1%	-0.5 ppts

Our Goals in FY17

Increase our Revenue	On track to deliver in H2
Grow sale and share of Tapware	On track to deliver in H2
Launch new services for the Plumber	On track to deliver in H2
Increased share of Specification market	On track to deliver in H2
Increased brand awareness and preference via digital channels	On track

Increase our Revenue

- Revenue flat year-on-year due to a major customer stock holding reduction. Pleasing to note that sales in are now reflective of sales out and are expected to recover in the second half. Increased investment of $600k in team capability, trade activity and market-focused services were the primary driver of % EBIT decline, and are expected to recover in the second half.

Grow sale and share of Tapware

- Sales in negatively impacted by the destock already mentioned. This has now normalised.

Launch new services for the Plumber

- On target to launch as planned in the second half.

Increased share of Specification market

- New Trans-Tasman Specification Team launched to specifically target major specification activity in both Australia and New Zealand. Improved operational capability developed to make it easier to specify Methven products.

Increased brand awareness and preference via digital channels

- Total page views increased by 106%. New functionality to be launched in second half, including Shareholder Discount Purchase Scheme.

AUSTRALIA

AU $000	6 months ended December 2016 Unaudited	2015 Unaudited	Variance %
Sales revenue	**20,109**	19,816	1.5%
EBIT[3]	**1,293**	1,646	-21.4%
EBIT % of revenue	**6.4%**	8.3%	-1.9 ppts

Our Goals in FY17

Profitable revenue growth	On track to deliver in H2
Grow sale and share of Tapware	On track to deliver in H2
Launch new category segmentation at point of purchase	On track to deliver in H2
Increased share of Specification market	On track to deliver in H2
Increased brand awareness and preference via digital channels	On track

Profitable revenue growth

- The Masters DIY closure was the biggest fire sale in Australian corporate history, and negatively impacted demand across the market as consumers went looking for bargains. Demand subsequent to the closure has been strong and we are confident we are well placed to capitalise. EBIT[3] decreased by 21.4% as margins were significantly impacted by AU$ devaluation and Masters. Price increases were passed to the market in December, and are expected to support a profitable top and bottom line recovery.

Grow sale and share of Tapware

- Significant new projects are underway to support this goal through FY17.

Launch new category segmentation at point of purchase

- Insight work has been completed in-store, concepts developed, and financial impact evaluated. In discussions with partners regarding implementation timing,

Increased share of Specification market

- New Trans-Tasman Specification Team launched to specifically target major specification activity in both Australia and New Zealand. Improved operational capability developed to make it easier to specify Methven products. Some positive specification wins confirmed in conjunction with our partners.

Increased brand awareness and preference via digital channels

- Total page views up by 131%. New functionality to be launched in second half.

UNITED KINGDOM

GB £000	6 months ended December 2016 Unaudited	2015 Unaudited	Variance %
Sales revenue	**5,919**	5,629	5.2%
EBIT[3]	**264**	211	25.1%
EBIT % of revenue	**4.5%**	3.7%	0.8 ppts

Our Goals in FY17

Double digit sales and profit growth	On track to deliver in H2
£ growth from new national distribution	On track
Launch new international markets	In discussion with potential partners
Market share growth of differentiated shower offer	On track to deliver in H2
Increased brand awareness and preference via digital channels	On track

Double digit sales and profit growth

- Positive outlook for top line performance, with contract wins coming through from FY16 along with new wins in FY17. Right structure means that the benefits are flowing through to EBIT[3] which now stands at 4.5% or £264k, an increase of 25.1%.

£ growth from new national distribution

- Two new contracts confirmed that will support both top and bottom line improvements in the UK.

Launch new international markets

- Conversations are ongoing with potential partners in order to deliver extensions to our international distribution.

Market share growth of differentiated shower offer

- Strong performance that will only improve with new distribution.

Increased brand awareness and preference via digital channels

- Total page views up by 21%. New functionality to be launched in second half.

GROUP OPERATIONS (Including NZ and China Manufacturing)

	6 months ended December		
NZ $000	**2016 Unaudited**	2015 Unaudited	Variance %
Sales revenue - external customers	**390**	372	4.8%
Sales revenue - internal customers	**15,034**	16,618	-9.5%
EBIT[3]	**1,177**	2,543	-53.7%
EBIT % of revenue	**7.6%**	15.0%	-7.4 ppts

- A supplier management issue constrained the Heshan factory output, impacting earnings and recoveries and necessitated higher air freight during the period. These issues have now been fully resolved and the factory performance is back on track.
- Delays to the start of manufacturing at our new home in New Zealand meant that recoveries were impacted in the first quarter. Site now fully operational, with Lean process optimisation underway to improve efficiencies further.
- Investment in R&D and manufacturing capabilities in New Zealand in order to increase know-how and improve flexibility and efficiency.

UPDATED GUIDANCE FOR THE FULL YEAR TO 30 JUNE 2017

Despite the significant one-off challenges in the first quarter, we have cautiously maintained full year guidance, though are now expecting to be at the lower end of the range:

- Revenue growth of at least 5%.
- NPAT growth for year expected to be at the lower end of the 10 - 20% guidance range.
- Revenue and NPAT guidance in constant currency[4].

We are confident that the ongoing investment in products and services will help us to deliver long term profitable growth for all of our shareholders.

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

The Directors have pleasure in presenting the interim financial statements of Methven Limited, set out on pages 18 to 29, for the six months ended 31 December 2016. The Directors authorised these financial statements for issue on 1 March 2017.

In the previous financial period, Methven Limited changed its financial year end from March to June. As a result the prior comparatives period is for a nine month period to 31 December 2015. It is acknowledged that this makes comparability between the current six month period and the prior nine month period less meaningful and for this reason the Summary Report and Business Review on pages 4 to 16 focuses on comparing our performance for the six months ended 31 December 2016 to the same period in the prior year.

Phil Lough
Chairman

Richard Cutfield
Chair of the Audit, Compliance and Risk Management Committee

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

NZ $000	Notes	**6 months ended 31 Dec 16 Unaudited**	9 months ended 31 Dec 15 Unaudited
Sales revenue	4	**49,911**	77,067
Cost of sales		**(28,149)**	(41,494)
Gross profit		**21,762**	35,573
Other income		**259**	452
Expenses			
Research, design and engineering		**(1,146)**	(1,853)
Sales, distribution, marketing and brand development		**(11,128)**	(17,882)
Administration and other expenses		**(4,657)**	(7,423)
Finance costs		**(623)**	(1,093)
Profit before income tax		**4,467**	7,774
Income tax expense		**(1,271)**	(2,184)
Net profit attributable to shareholders	4	**3,196**	5,590
Earnings per share for profit attributable to the shareholders:			
Basic earnings per share (cents)		**4.5**	7.9
Diluted earnings per share (cents)		**4.5**	7.9

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

NZ $000	**6 months ended 31 Dec 16 Unaudited**	9 months ended 31 Dec 15 Unaudited
Net Profit for the period	**3,196**	5,590
Items that may be reclassified subsequently to profit or loss		
Movement in foreign currency translation reserve	**(1,713)**	2,824
Movement in cashflow hedge reserve	**504**	(1,397)
Income tax relating to items that may be reclassified	**(160)**	402
Total items that may be reclassified subsequently to profit or loss	**(1,369)**	1,829
Other comprehensive income/(loss) for the period net of tax	**(1,369)**	1,829
Total comprehensive income for the period attributable to the shareholders	**1,827**	7,419

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

NZ $000	Notes	As at 31 Dec 16 Unaudited	As at 31 Dec 15 Unaudited	As at 30 Jun 16 Audited
Assets				
Current assets				
Cash and cash equivalents		**3,970**	3,058	2,240
Trade receivables		**13,676**	13,491	17,911
Inventories		**25,376**	25,526	18,739
Derivative financial instruments		**1,328**	807	1,084
Income tax receivable		**465**	-	178
Prepayments and other assets		**2,366**	2,712	1,480
Total current assets		**47,181**	45,594	41,632
Non-current assets				
Property, plant and equipment		**9,692**	7,387	9,553
Deferred tax assets		**2,806**	3,225	3,162
Intangible assets		**37,110**	43,905	39,406
Total non-current assets		**49,608**	54,517	52,121
Total assets		**96,789**	100,111	93,753
Liabilities				
Current liabilities				
Trade creditors		**13,504**	12,134	10,838
Interest bearing liabilities		**92**	-	145
Derivative financial instruments		**181**	456	937
Income tax payable		**204**	1,623	158
Provisions		**392**	386	360
Other creditors and accruals		**3,423**	3,418	5,054
Employee accruals		**1,982**	2,388	2,869
Contingent consideration		**-**	2,651	-
Total current liabilities		**19,778**	23,056	20,361
Non-current liabilities				
Interest bearing liabilities		**28,939**	24,412	24,217
Derivative financial instruments		**9**	70	-
Non-current employee accruals		**207**	160	173
Total non-current liabilities		**29,155**	24,642	24,390
Total liabilities		**48,933**	47,698	44,751
Net assets		**47,856**	52,413	49,002
Equity				
Share capital		**52,291**	52,080	52,080
Reserves		**(11,833)**	(6,928)	(10,503)
Retained earnings		**7,398**	7,261	7,425
Total equity		**47,856**	52,413	49,002

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

NZ $000	Unaudited	Share capital	Hedge reserve	Share-based payments reserve	Currency translation reserve	Retained earnings	Total equity
Balance at 1 July 2016		52,080	113	197	(10,813)	7,425	49,002
Movement in foreign currency translation reserve		-	-	-	(1,713)	-	(1,713)
Movement in cashflow hedge reserve		-	504	-	-	-	504
Movement in deferred tax on hedge reserve		-	(160)	-	-	-	(160)
Profit for the period		-	-	-	-	3,196	3,196
Total comprehensive income		-	**344**	**-**	**(1,713)**	**3,196**	**1,827**
Dividends		-	-	-	-	(3,223)	(3,223)
Shares issued		211	-	-	-	-	211
Movement in share-based payments reserve			-	39	-	-	39
Balance at 31 December 2016		**52,291**	**457**	**236**	**(12,526)**	**7,398**	**47,856**

NZ $000	Audited	Share capital	Hedge reserve	Share-based payments reserve	Currency translation reserve	Retained earnings	Total equity
Balance at 1 April 2015		52,080	801	86	(9,707)	6,641	49,901
Movement in foreign currency translation reserve		-	-	-	(1,106)	-	(1,106)
Movement in cashflow hedge reserve		-	(1,003)	-	-	-	(1,003)
Movement in deferred tax on hedge reserve		-	315	-	-	-	315
Profit for the period		-	-	-	-	8,594	8,594
Total comprehensive income		-	**(688)**	**-**	**(1,106)**	**8,594**	**6,800**
Dividends		-	-	-	-	(7,810)	(7,810)
Movement in share-based payments reserve		-	-	111	-	-	111
Balance at 30 June 2016		**52,080**	**113**	**197**	**(10,813)**	**7,425**	**49,002**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

NZ $000 Unaudited	Share capital	Hedge reserve	Share-based payments reserve	Currency translation reserve	Retained earnings	Total equity
Balance at 1 April 2015	52,080	801	86	(9,707)	6,641	49,901
Movement in foreign currency translation reserve	-	-	-	2,824	-	2,824
Movement in cashflow hedge reserve	-	(1,397)	-	-	-	(1,397)
Movement in deferred tax on hedge reserve	-	402	-	-	-	402
Profit for the period	-	-	-	-	5,590	5,590
Total comprehensive income	-	**(995)**	-	**2,824**	**5,590**	**7,419**
Dividends	-	-	-	-	(4,970)	(4,970)
Movement in share-based payments reserve	-	-	63	-	-	63
Balance at 31 December 2015	**52,080**	**(194)**	**149**	**(6,883)**	**7,261**	**52,413**

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

CONSOLIDATED CASHFLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

NZ $000	Notes	6 months ended 31 Dec 16 Unaudited	9 months ended 31 Dec 15 Unaudited
Cashflows from operating activities			
Receipts from customers		**53,810**	78,386
Government grants		**280**	441
Payments to suppliers		**(38,896)**	(48,045)
Payments to employees		**(11,882)**	(17,493)
		3,312	13,289
Interest received		**-**	1
Interest paid		**(637)**	(1,088)
Income taxes paid		**(1,384)**	(2,920)
Net cash inflow from operating activities	5	**1,291**	9,282
Cashflows from investing activities			
Payments for property, plant and equipment, patents, trademarks and software		**(1,560)**	(2,744)
Proceeds from sale of property, plant and equipment		**88**	91
Net cash outflow from investing activities		**(1,472)**	(2,653)
Cashflows from financing activities			
Issue of ordinary shares		**190**	-
Proceeds from/(repayments of) borrowings		**4,991**	(682)
Dividends paid		**(3,223)**	(4,970)
Net cash (outflow)/inflow from financing activities		**1,958**	(5,652)
Net increase in cash and cash equivalents		**1,777**	977
Cash and cash equivalents at the beginning of the period		**2,240**	2,008
Foreign currency translation adjustment		**(47)**	73
Cash and cash equivalents at the end of the period		**3,970**	3,058

The above consolidated cashflow statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

1 GENERAL INFORMATION

Methven Limited (the "Company") and its subsidiaries (together "Methven" or the "Group") designs, manufactures and supplies showerware, tapware and water control valves.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 41 Jomac Place, Avondale, Auckland.

These financial statements have been approved for issue by the Board of Directors on 1 March 2017. The directors do not have the power to amend these financial statements after issuance.

2 BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), IAS 34 and NZ IAS 34 Interim Financial Reporting as applicable for profit-oriented entities.

The interim financial statements should be read in conjunction with the Annual Report for the year ended 30 June 2016 and NZX announcements made by Methven Limited during the interim reporting period.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 30 June 2016 and the comparative interim reporting period.

4 SEGMENT INFORMATION

(a) Description of segments

The Group operates in one industry segment, being the design and supply of showerware, tapware and domestic water control valves.

Management has determined the operating segments based on the reports reviewed by the Group Board of Directors, Group Chief Executive Officer and Group Chief Financial Officer, collectively known as the Chief Operating Decision Maker (CODM) for the purpose of allocating resources, assessing performance and making strategic decisions.

Group Operations

The Group Operations are the global base for:

- Supply chain services with products sourced by Group Operations on behalf of the other segments,
- Research and development leading to new design, technology and Intellectual Property,
- Marketing and brand development activity,
- Manufacturing operations including locations in New Zealand and China, and
- Strategic and management support, IT and corporate services.

New Zealand

Comprises sales and marketing operations in New Zealand supplying showerware, tapware and domestic water control valves.

4 SEGMENT INFORMATION (CONTINUED)

Australia

Comprises sales and marketing operations in Australia supplying showerware, tapware and domestic water control valves.

United Kingdom

Comprises sales and marketing operations in the United Kingdom, the European Union and the Middle East, supplying showerware, tapware and domestic water control valves.

Once a reportable segment becomes material and enhances the evaluation of business activities in the Group, the segment will be reported separately. Profit is before inter-segmental dividends as this is the way it is viewed by the CODM.

Six months ended 31 December 2016 Unaudited NZ $000	New Zealand	Australia	UK	Group Operations	Inter-segment eliminations/ unallocated and Other	**Total**
Sales revenue from external trade customers	17,802	21,117	10,522	390	80	**49,911**
Sales revenue from internal customers	-	120	-	15,034	(15,154)	**-**
Total sales revenue	17,802	21,237	10,522	15,424	(15,074)	**49,911**
Earnings before interest and tax	2,239	1,355	470	1,177	(151)	**5,090**
Interest expenses	-	(127)	(303)	(193)	-	**(623)**
Net profit/(loss) before income tax	2,239	1,228	167	984	(151)	**4,467**
Income tax (expense) / credit	(626)	(370)	(30)	(276)	31	**(1,271)**
Net profit/(loss) for the period	1,613	858	137	708	(120)	**3,196**

Nine months ended 31 December 2015 (restated*) Unaudited NZ $000	New Zealand	Australia	UK	Group Operations	Inter-segment eliminations/ unallocated and Other	**Total**
Sales revenue from external trade customers	26,074	31,157	19,167	528	141	**77,067**
Sales revenue from internal customers	-	24	-	22,947	(22,971)	**-**
Total sales revenue	26,074	31,181	19,167	23,475	(22,830)	**77,067**
Earnings before interest and tax	3,535	2,221	503	2,761	(153)	**8,867**
Interest received/(paid)	-	(177)	(562)	(354)	-	**(1,093)**
Net profit before income tax	3,535	2,044	(59)	2,407	(153)	**7,774**
Income tax (expense) / credit	(978)	(514)	5	(680)	(17)	**(2,184)**
Net profit/(loss) for the period	2,557	1,530	(54)	1,727	(170)	**5,590**

*HY2016 results have been reclassified for the following: earnings is earnings before interest and tax (EBIT) (2015: EBITDA); China sales segment amalgamated into inter-segment eliminations and other.

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5 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

NZ $000	**6 months ended 31 Dec 16 Unaudited**	9 months ended 31 Dec 15 Unaudited
Profit for the period	**3,196**	5,590
Depreciation	**1,135**	1,491
Amortisation of intangible assets	**618**	997
Share options expensed	**39**	63
Net loss on disposal of assets	**-**	11
Impacts of changes in working capital items		
Trade receivables	**3,924**	1,318
Inventories	**(7,143)**	(1,955)
Prepayments and other assets	**(934)**	467
Trade creditors	**2,891**	1,084
Employee accruals	**(812)**	262
Provisions and other creditors and accruals	**(1,510)**	689
Tax (payable)/receivable	**(245)**	(267)
Deferred income tax	**132**	(468)
Net cash inflow from operating activities	**1,291**	9,282

6 RELATED PARTY TRANSACTIONS

During the period there were related party transactions as described below.

Share-based payments and loans to key management

The Board approved three employee share schemes during the period; an Employee Share Plan, a Discounted Share Purchase Plan and a CEO Share Scheme. The schemes are intended to align and link employees as owners of the business and focus action on growing sustained shareholder value. The details of the schemes are summarised below:

	Employee Share Plan	**Discounted Share Purchase Plan**	**Chief Executive Officer Share Scheme**
Number of shares issued during the period	83,620 shares	156,073	369,713
% of total shares on issue	0.1%	0.2%	0.5%
Share price at grant date (weighted average)	$1.35 (25-29th August 2016)	$1.35 (25-29th August 2016)	$1.35 (25-29th August 2016)
Issue price	Nominal price of $1 per employee	$1.22	$1.35
Financial assistance	N/A	N/A	Loan provided, refer below for further detail.
Share issue date	14 October 2016	15 September 2016	20 December 2016
Approved by Board	28 September 2016	24 August 2016	24 August 2016
Consideration	$1 per employee	$190,409	$500,000
Participants	113 NZ-based employed on 5 October 2016.	34 NZ-based employees elected to participate. The share plan was open to NZ-based staff employed on 25 August 2016.	Chief Executive Officer
Shares issued to	Methven Employee Share Trustee Limited	Employee	Employee
Vesting conditions	Must be employed continuously until 14 October 2019.	N/A	N/A
Holding period	N/A	Minimum of six months from 14th October 2016.	Shares held until the loan is repaid in full.

Employee Share Plan

The shares were issued to the Methven Employee Share Trustee Limited (rather than to the employees). The shares are held by the trustee company and are treated as treasury shares in the financial statements at the end of the reporting period. The trustee company holds the shares on trust for the benefit of the relevant employee for a three year holding period.

The shares were recognised as an issue of treasury shares and as part of employee benefit costs (over the three year vesting period). The Schemes have been established as a share purchase scheme as defined in section YA 1 of the Income Tax Act 2007 and has been approved by the Commissioner of Inland Revenue.

6 RELATED PARTY TRANSACTIONS (CONTINUED)

Discounted Share Purchase Plan

Shares were issued directly to 34 employees. Under the scheme, the participating employees were able to purchase Methven shares at a 10% discount to the market price prior to the offer. The discount on the shares were recognised as part of employee benefit costs in the period the shares were granted.

CEO Share Scheme

Methven issued 369,713 treasury shares in the Company to the Group CEO. The shares were issued for cash and Methven has extended an equivalent limited recourse loan to the CEO which is fully repayable. The loan bears interest at IRD determined FBT rates and is repayable over 10 years or the date of termination of employment. There are no vesting conditions in relation to the shares in this scheme other than repayment of the outstanding loan in full. Dividends will be used to repay interest and principal on the loan. Methven holds security over the shares until such time as the outstanding balance of the loan has been fully repaid. The CEO will be eligible to be paid a cash bonus at the end of June 2019 if certain net profit after tax targets are met with any such payment required to be applied towards early repayment of the loan. This scheme was accounted for as an in substance option in accordance with NZ IFRS 2 Share based payments.

Transactions with other parties

There were no other related party transactions during the current period. In the previous period there were related party transactions with Heshan City ASBF Sanitary Fitting Company Limited ($355,000), Heshan City Yiao Advisory Service Co., Ltd ($372,000) and Invention Sanitary Ltd ($78,000). These were all related parties by virtue of Hui Zhuang's relevant interest in these companies and his directorship in Methven Heshan Bathroom Fitting Co. Limited, which ceased in December 2015.

7 FAIR VALUE MEASUREMENT

The carrying value of all balance sheet financial instruments approximates their fair value. Derivatives are carried at fair value. Receivables and payables are short term in nature and therefore approximate to their fair value. Interest bearing bank deposits and bank finance facilities re-price every 1 to 90 days and are therefore approximate to their fair value.

The Group's hedging derivatives, being interest rate swaps and forward exchange contracts, are over-the-counter derivatives and are classified as tier 2 financial instruments under NZIFRS 7, meaning that their fair value is estimated using present value and other valuation techniques based on observable market rates.

8 EVENTS OCCURRING AFTER THE REPORTING PERIOD

The following events have occurred subsequent to the half year end:

- The Board of Directors resolved to pay an interim dividend of 4.0 cents per share. The dividend will be paid on 31 March 2017 to all shareholders on the Company's register on 17 March 2017.

There have been no other events occurring after balance date which would materially affect the accuracy of these financial statements.

9 CAPITAL COMMITMENTS AND CONTINGENCIES

The Group had no capital commitments as at 31 December 2016 (June 2016: $217,000; December 2015: $1,080,000) and no contingent liabilities or assets as at 31 December 2016 (June 2016: $Nil; December 2015: $Nil).

10 NON-GAAP MEASURES

Methven comments on non-GAAP measures to provide data that management uses in assessing the financial position of the Group.

Reconciliation of Net Debt to the consolidated balance sheet

	As at 31 Dec 16 Unaudited	As at 31 Dec 15 Unaudited	As at 30 Jun 16 Audited
Cash and cash equivalents	**3,970**	3,058	2,240
Finance leases	**(806)**	-	(859)
Bank facility loans	**(28,225)**	(24,412)	(23,503)
Net Debt	**(25,061)**	(21,354)	(22,122)

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