| METHVEN LIMITED | |
|---|---|
| **Results for announcement to the market** | |
| Reporting Period | 15 months ended 30 June 2016 |
| Previous Reporting Period | 12 months ended 31 March 2015 |

| | Amount (NZD'000s) | Percentage change |
|---|---|---|
| Sales revenue from ordinary activities | $129,987 | +34.9% |
| Net Profit attributable to shareholders | $8,594 | +51.0% |

| | Gross amount per share | Imputation tax credit per share |
|---|---|---|
| Final Dividend (For Period Ended 30 June 2016) | 5.00 cents | 0.50 cents |
| Record Date | 23 September 2016 | |
| Dividend Payment Date | 30 September 2016 | |

| | |
|---|---|
| Audit | The financial statements attached to this report have been audited. |

| | |
|---|---|
| Comments: | Methven changed its balance date during the period from March to June. This has resulted in the audited financial statements contained on pages 19 to 52 being for a period of fifteen months to 30 June 2016 with a comparative period of twelve months to 31 March 2015. It is acknowledged that this makes comparative reporting less meaningful. As a result, all financial highlights included within the commentary on pages 2 to 14 are for the twelve months ended 30 June 2016 against the same period in the prior year and are unaudited. |

**Earnings per Security (EPS)**
Calculation of basic and fully diluted EPS in accordance with NZ IAS 33: Earnings per Share

| | 15 months ended 30-June-16 (cents per share) | 12 months ended 31-Mar-15 (cents per share) |
|---|---|---|
| Basic EPS | 12.1 | 8.2 |
| Diluted EPS | 12.1 | 8.2 |

**Dividends Paid/Payable**

| | Date Paid / Payable | Cents per share |
|---|---|---|
| Final Dividend for the 15 months ended 30 June 2016 | 30 September 2016 | 4.5 (partially imputed) |
| Interim Dividend for the 15 months ended 30 June 2016 | 31 March 2016 | 4.0 (fully imputed) |
| Special Dividend paid 31 December 2015 | 31 December 2015 | 3.0 (fully imputed) |

**Net Tangible Assets per share**

| | As at 30 June 2016 | As at 31 March 2015 |
|---|---|---|
| Net Tangible Assets per share | $0.14 | $0.11 |

# Methven Limited

RESULTS FOR THE YEAR ENDED 30 JUNE 2016

## Positive momentum at Methven

## RESULTS SUMMARY[1]

| | 12 months ended June | | |
|---|---|---|---|
| NZ $000 | 2016 | 2015 | Variance % |
| Sales revenue | 105,822 | 97,868 | 8.1% |
| Net profit after tax | 7,680 | 5,880 | 30.6% |
| NPAT % of sales | 7.3% | 6.0% | 1.3 ppts |
| Net debt[2] | 22,122 | 23,871 | -7.3% |
| **Excluding non-recurring items** | | | |
| Net profit after tax[3] | 8,036 | 6,485 | 23.9% |
| NPAT[3] % of sales | 7.6% | 6.6% | 1.0 ppts |

## Highlights

- Net Profit After Tax (NPAT) increased by 30.6% to $7.7 million and from 6.0% to 7.3% of sales.
- NPAT excluding non-recurring items[3] increased by 23.9% to $8.0 million.
- Strong sales performance recorded in both Australia and New Zealand, with Australia improved by 6.9% and New Zealand by 10.8%.
- Market share growth in New Zealand supported by double digit tapware growth and Aio showerware performance.
- The UK market showed a strong earnings[3] increase of 122%, though revenue was below expectations as the start of contracts that have been won over the course of the year were delayed.
- Aurajet® became the most awarded product in the history of Methven and was the catalyst for increased distribution in the UK and internationally.
- Earnings from Methven Heshan were in line with expectations.
- Over $3.7 million expenditure invested in future focused activity including new product and brand development, building digital, manufacturing and environmental capability.
- $1.4 million clearance of older and obsolete inventory (before provisions)
- There were a number of non-recurring items in the year, most notably with the earnout of Invention Sanitary being cancelled and increased provisioning for clearance of old and obsolete inventory in Australia, China and New Zealand.
- Net debt[2] decreased by 7.3% to $22.1 million driven by earnings growth and an underlying inventory reduction of $2.9 million.
- The Directors declared a partially imputed final dividend of 4.5 cents per share payable on 30 September 2016.

1. During the period the Methven changed its balance date from March to June and as a result the audited financial statements on pages 19 to 52 are for the 15 months ended June 2016. To assist with comparability all results presented on pages x to x are for the 12 months ended 30 June 2016 against the same period last year and are unaudited.
2. Refer to the reconciliation of Net debt to the consolidated balance sheet in note 3.6 of the financial statements.
3. There were several non-recurring items during the year. In order to compare underlying performance on a like for like basis, the results excluding these non-recurring items are presented. Refer page 8 and Key Changes Note 1.5 of the financial statements.
4. EBIT is earnings before interest, tax and non-recurring items.

# CHAIRMAN & GROUP CEO'S REPORT

Before we review the performance for the year ending June 2016, it would be remiss of us not to highlight how incredibly proud we are to lead Methven at the time where we celebrate Methven's 130 year Anniversary. We think it's particularly pertinent that as we celebrate this milestone, we are also targeting to grow revenue to $130 million by June 2018. We have made many improvements to the business this year that we share with you today and look forward to continuing our journey to deliver long term profitable growth and a business that we all can be even more proud to support.

We are pleased to report Group net profit after tax (NPAT) of $7.7 million, an increase of 30.6% over the previous year and excluding non-recurring items, an NPAT increase of 23.9% to $8.0 million. In addition, we are very encouraged to see the Group's sales growth of 8.1% (6.0% in constant currency), our first material revenue growth since 2009, driven by strong performance in both Australia and New Zealand. This is in line with our guidance.

This year's profit growth has been driven by good revenue and market share growth in both Australia and New Zealand and supported by earnings growth in Methven Heshan and the United Kingdom. Earnings in both Australia and New Zealand were impacted by significant currency headwinds as a result of USD strengthening.

The reported Group sales revenue of $105.8 million showed an increase of 8.1% versus the previous period and 6.0% in constant currency. Sales in New Zealand increased by 10.8% driven by strong performance across the market, though it was particularly encouraging to see tapware report double digit growth and a number of new contracts being won that will help deliver more sustainable performance. In Australia, sales increased by 6.9% with strong performance in the showering category and also registered a slight improvement in EBIT[4] % to sales as the business was further focused on delivering profitable growth. Delays in implementing price increases (now actioned) affected earnings in the short term.

Net debt[2] finished at $22.1 million, a reduction of 7.3% versus the previous year, primarily as a result of increased earnings and lower underlying inventory which reduced by $2.9 million versus the previous year. Importantly, service levels to our customers were maintained and we now have an improved overall inventory profile across the Group.

We remain comfortably within our banking covenant limits.

The directors were pleased to declare a final partially imputed dividend of 4.5 cps to be paid on 30 September 2016.

As part of our ongoing assessment of skills needed to support Methven's growth ambitions (Methven 130 and beyond) and our overall succession planning, the Board commenced the recruitment process for an additional Director to join the Board.

We highlighted our desire to become the partner of choice to key customers and plumber groups and are delighted to have been asked to lead, or become part of total category initiatives in Australia, the United Kingdom and New Zealand. This gives us further opportunity to think and act like the market leader and also tell our proud story more effectively, thus supporting sustainable sales performance. We are particularly pleased to launch our brand new plumber App that has been developed with input from plumbers in August this year.

Our international distribution continues to perform in line with our expectations, with product range extensions agreed in existing international markets for Implementation in late Q1 2017. We also gained agreement to add France as a new market commencing in November.

In the year that we celebrate 130 years of Innovation, it was particularly important that our investment in improved products and services to our customers continued with the aim of delivering long term sustainable growth. This included the opening of our two new Methven Experience Centres (one in the United Kingdom and our new Head Office in New Zealand). Importantly, these are at the same net operating cost as our previous operations.

We are also delighted to confirm that Aurajet®, launched in March 2015, became the most awarded product in Methven's proud history with awards in UK, Europe, America and Australasia, including a highly prestigious Red Dot Award in Germany. We are also encouraged that the second phase of Aurajet® launched in June 2016 has already achieved a design award in Australia after only a few weeks in market and has received very positive feedback from customers.

## Business Review

| Our Goals in FY16: | How did we perform: |
|---|---|
| Revenue growth in NZ | ACHIEVED |
| Strong sales and profit growth in UK | Earnings Yes/Revenue No |
| Profitable growth in Australia | Revenue Yes, Earnings partial |
| Successful launch of Aio™ incremental to Satinjet® | ACHIEVED |
| Deliver at least US$2 million annualised earnings from Heshan | ACHIEVED |
| Successful relocation of our Manufacturing and Head office in NZ | ACHIEVED |
| 130 year plans implemented to underpin brand equity and relevance | On track |

## Performance versus our FY16 goals

**Revenue growth in NZ** — **ACHIEVED**

- Sales revenue increased by 10.8% to $35.8 million, an increase of $3.5 million, with strong performance reported across all categories and with new contract wins in the second half of FY16 supporting sustainable growth. It is particularly encouraging that the activity and focus to regain lost market share that we reported at the end of FY15 delivered results in 2016.

**Strong sales and profit growth in UK** — **Earnings Yes/Revenue No**

- Revenue was below expectations as the start of contracts that have been won over the course of the year were delayed in to the next financial year. June 2016 sales performance was encouraging and registered the highest monthly sales in four years and customer visits to our new Methven Experience Centre since launch in November 2015 far exceeded any other time in our history in the UK. Despite investment in team capability and the relocation of our office and showrooms in the UK, it is encouraging to report that we were profitable, cash generative and that total EBIT[4] grew by 122% year-on-year.

**Profitable revenue growth** — **Revenue Yes, Earnings partial**

- Revenue increased by 6.9% in our Australian business which is a very encouraging sign, with key contract wins underpinning our confidence in delivering sustainable performance. While EBIT[4] grew at 9.2%, this is below our expectations and we retain our aim to deliver longer term EBIT[4] % to sales in line with New Zealand. EBIT[4] growth was significantly impacted by A$ weakness, with some delays in implementing required price increases impacting short term performance (now implemented).

**Successful launch of Aio™ incremental to Satinjet®** — **ACHIEVED**

- Aio™ became the most awarded product in the history of Methven in 2015/16 with design awards achieved in America, Europe, Australasia and the UK. Aio Phase 2 was launched on time and on budget in early June2016 and we are delighted that we have already received our first award for this product and as importantly, a very encouraging response from customers. Incremental sales growth from Aio, without significant cannibalisation of other sales, supports our belief that we have created a new market that is incremental to Satinjet®.

**Deliver at least US$2 million annualised earnings from Heshan** — **ACHIEVED**

- Earnings were in line with our expectations, and full integration has now been achieved with the successful transition to the leadership team led by Andy Chen. Hui Zhuang (previous owner of Invention Sanitary) retired from the business in December 2015. Working Capital, specifically inventory levels, remained higher than foreseen during due diligence. Consequently an agreement was reached with Mr Zhuang to cancel any earnout consideration entitlement despite realising anticipated earnings.

**Successful relocation of our Manufacturing and Head office in NZ** — **ACHIEVED**

- We are delighted to report that we successfully relocated our NZ business into our new home at the end of May. Our new purpose-built premises reflects our long term commitment to manufacturing in New Zealand, with us implementing Design, Engineering, Toolmaking, Foundry, Polishing and Assembly on site. It's also important to note that our new home has the same net operating cost as our previous site.

**130 year plans implemented to underpin brand equity and relevance** — **On track**

- We are incredibly proud to join a prestigious group of companies that have been in business for over 130 years. Plans are in place to recognise 130 years of Innovation at Methven and to evidence that our 'Spirit of Innovation' that was a founding principle of the business, is a key driver for anticipated future growth.

## NON-RECURRING ITEMS

During the year there were a number of non-recurring items as detailed in the table below:

| NZD $000 | Reported in | 12 months ended June 2016 | 2015 |
|---|---|---|---|
| **Reported net profit after tax** | | 7,680 | 5,880 |
| Inventory provision adjustment | Cost of sales | 1,734 | - |
| Relocation costs | Cost of sales | 741 | 39 |
| Contingent Consideration release | Other Income | (2,729) | - |
| Merger and acquisiton costs | Expenses | - | 127 |
| Legal Fees | Expenses | 381 | 181 |
| Marketing credits writedown | Expenses | 152 | - |
| Restructuring Costs | Expenses | 77 | 258 |
| Total non-recurring items | | 356 | 605 |
| **Adjusted net profit after tax** | | 8,036 | 6,485 |

- During the period the Group cleared a total of $1.4 million of slow and obsolete inventory. This was a record for the Group and gave us unprecedented learning about the value we could realise for older inventory, and highlighted that the provision assumptions used previously were inadequate. As a result, we conducted a detailed review at all sites and compared it with our best case example in the UK where ageing inventory has been cleared effectively over a number of years. As a result of this review, we concluded that we needed to record a one-off provision of $1.7 million to cover clearance of older inventory across Australia, China and New Zealand.
- We relocated both our UK office and our NZ Head Office and manufacturing operation to new leasehold sites. These sites provide us with the opportunity to open market leading Experience Centres and to reflect our long term commitment to manufacturing in New Zealand, with us implementing Design, Engineering, Toolmaking, Foundry, Polishing and Assembly on site. One-off relocation costs were incurred during the period of $0.7 million.
- The earnings delivered from the Invention Sanitary acquisition were in line with expectation and full integration has now been achieved with the successful transition to the leadership team led by Andy Chen. Hui Zhuang (Invention Sanitary vendor) retired from the business in December 2015. Working Capital has remained higher than foreseen during due diligence, and in May 2016 agreement was reached with Mr Zhuang to cancel any earnout that arose from the acquisition despite realising anticipated earnings, given the extent of increased working capital required on settlement. As a result, the $2.7 million Contingent Consideration liability was released to the Income Statement.
- Merger and acquisition costs relate to the agreement to acquire the business assets of Invention Sanitary.
- Legal fees relate to costs incurred to successfully defend a claim by a former service provider.
- Marketing credits asset held on the Australian balance sheet, have been written down reflecting actual usage.
- Restructuring costs relate to one-off costs as a result of organisational changes made in the China and UK segments.

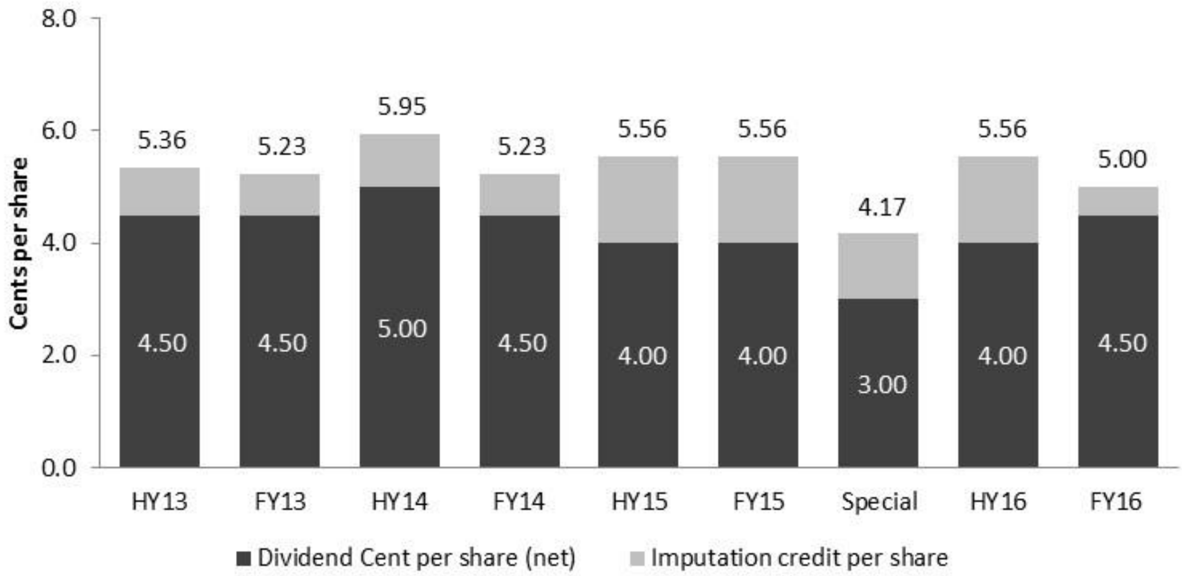
## NET DEBT

Net Debt[2] decreased by 7.3% versus the previous year, with increased earnings and $2.9 million underlying inventory reduction being the major driver.  We are encouraged with this performance and remain committed to decreasing inventory further but increasing our service level to our customers at the same time.

We remain well within our banking covenants.

## FINAL DIVIDEND

The Directors have declared a final partially imputed dividend of 4.5 cents per share to be paid on 30 September 2016..



# Market Review

## NEW ZEALAND

| NZ $000 | 12 months ended June 2016 | 2015 | Variance % |
|---|---|---|---|
| Sales revenue | 35,771 | 32,281 | 10.8% |
| EBIT[4] excluding non-recurring items | 4,703 | 4,010 | 17.3% |
| EBIT % of revenue | 13.1% | 12.4% | 0.7 ppts |

| Our Goals in FY16: | How did we perform: |
|---|---|
| Increase our Revenue | ACHIEVED |
| Grow sale and share of Tapware | ACHIEVED |
| Successful launch of Aio™ incremental to Satinjet® | ACHIEVED |
| 130 year plans implemented to underpin brand equity and relevance | On track |
| Win online | ACHIEVED |

- Sales revenue increased by 10.8 % to $35.8 million, an increase of $3.5 million, with strong performance reported across all categories and with new contract wins in H2 supporting sustainable growth. It is particularly encouraging that the activity and focus to regain lost market share that we reported at the end of FY15 has delivered results in 2016.
- Double digit growth in tapware sales supported performance across the market, including a number of initiatives only launched in late FY 2016. In addition, with our aim to drive an improvement in vitality (sales contribution from recent product releases), it is encouraging to note that we launched more new products in FY16 than in the last four years combined.
- Aio ™ shower range (now Phase 1 and 2) continues to perform well and in line with our business case assumptions. As anticipated, Aio™ has proven to be a catalyst for the whole brand as it symbolises our 'Spirit of Innovation' and is genuinely recognised as a world class solution.
- Digital (website visits) continued to build, with total visitors up by 49%.

## AUSTRALIA

| AU $000 | 12 months ended June 2016 | 2015 | Variance % |
|---|---|---|---|
| Sales revenue | 39,607 | 37,036 | 6.9% |
| EBIT[4] excluding non-recurring items | 3,326 | 3,047 | 9.2% |
| EBIT % of revenue | 8.4% | 8.2% | 0.2 ppts |

| Our Goals in FY16: | How did we perform: |
|---|---|
| Profitable revenue growth | Revenue yes, Earnings partial |
| Grow sales and share of Tapware | Below expectations |
| Successful launch of Aio™ incremental to Satinjet® | ACHIEVED |
| 130 year plans implemented to underpin brand equity and relevance | September launch |
| Win online | ACHIEVED |

- Sales revenue increased 6.9%, with encouraging contract wins and response to our new shower and tapware products launched in late FY16.
- EBIT[4] increased by 9.2% due to cost base reductions and better operational performance than the previous year. Total marketing investment was focused on our differentiated shower offer and is supporting brand preference. Positively, one major customer now uses the Methven brand to emphasise their compelling offer to their customers.
- Delays in implementing price increases to offset the significant negative impact of the weakening AUD/USD created a short term margin and contribution impact (now implemented).
- Total website visitors grew by 136%, again supporting brand preference.

## UNITED KINGDOM

| GB £000 | 12 months ended June 2016 | 2015 | Variance % |
|---|---|---|---|
| Sales revenue | 11,914 | 12,192 | -2.3% |
| EBIT[4] excluding non-recurring items | 553 | 249 | 122.1% |
| EBIT % of revenue | 4.6% | 2.0% | 2.6 ppts |

| Our Goals in FY16: | How did we perform: |
|---|---|
| Strong sales and profit growth | Earnings Yes/Revenue No |
| Launch with one new major UK customer | ACHIEVED |
| Successful launch of Aio™ incremental to Satinjet® | New Distribution but not reflected in revenue yet |
| 130 year plans implemented to underpin brand equity and relevance | September launch |
| Win online | ACHIEVED |

- Slight revenue decline due to new contracts won throughout the year being delayed until our new financial year. Sales growth resumed in the final quarter and June 2016 was the highest sales month in four years.
- New distribution achieved with two national partners, rollout started in the second half of FY16.
- EBIT[4] increased by 122%% as the UK cost structure was aligned to reflect current sales. The UK business is profitable and cash generative.
- Total website visitors increased by 61% versus the previous year, and one digital campaign for a national distribution partner recorded their best ever performance across the whole business and associated margin.
- In November 2015, we relocated to a new office and Experience Centre that allows us to tell our proud Methven story effectively for the first time in the UK. More customers visited our Experience Centre since launch in November 2015 than visited us in our entire history in the UK. Net operating costs at our new improved home in line with previous net operating costs.

## GROUP OPERATIONS

| | 12 months ended June | | |
|---|---|---|---|
| NZ $000 | 2016 | 2015* | Variance % |
| Sales revenue - external customers | 632 | 519 | 21.8% |
| Sales revenue - internal customers | 30,634 | 26,411 | 16.0% |
| EBIT[2] excluding non-recurring items | 2,982 | 2,884 | 3.4% |
| EBIT % of revenue | 9.5% | 10.7% | -1.2 ppts |

*Sales to internal customers in 2015 has been restated

- Includes:
  - Both NZ and China manufacturing operations.
  - R&D and other Group support functions.
- NZ manufacturing and Heshan earnings in line with expectations
- Investment in relocation and manufacturing capabilities in New Zealand are designed to improve flexibility and efficiency.

# Positive Outlook

## For the full year to 30 June 2017

We continue the systematic improvement in products, services and processes within our business, and remain fully committed to deliver long term profitable growth for our Shareholders and team and becoming a truly world class business operating on the world stage. We remain positive that activity, either agreed or underway, will help us deliver that goal but recognise the need to deliver top line growth in the UK despite Brexit volatility.

## Guidance - Year ending June 2017

- Revenue growth of at least 5%.
- NPAT growth for year expected to be 10 - 20% (forecast to be flat year-on-year at half year).
- Revenue and NPAT guidance in constant currency.

## Methven 130

**Our Goals in FY17**

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

## Methven 130

Methven 130 sets out our strategic goal to grow sales to $130 million by June 2018 and NPAT towards our longer term target of 10% of sales. To achieve these goals, we set out our core strategic focus around seven defined areas: Supply chain and operations, Technology, Retail, Insight, Digital, Employees, and Sustainability, collectively known as our S.T.R.I.D.E.S.

We are delighted with the progress made during the first year of our three year plan and now update on our progress:

| | |
|---|---|
| **S**upply and Operations | Inventory levels reduced, Service level maintained to our Customers. |
| **T**echnology | Aio Phase 2 launched in June 2016 on time and on budget. Our next shower technology (currently Methven own 2 of 5 global shower technologies) is on track, with us finalising the technical elements that will allow us to deliver another innovative shower technology. |
| **R**etail | Two new retail point of sale concepts launched and performing well. |
| **I**nsight | Net Promoter score research across major Influencer groups (customers, plumbers, architects, designers, and team) underway. |
| **D**igital | Group-wide website visits up 80% versus the previous year. |
| **E**mployees | New Values defined and launched, good progress on Employees as shareholders. |
| **S**ustainability | Environmental Product Declarations in preparation and many new sustainable initiatives at our new home. |

# Our Values

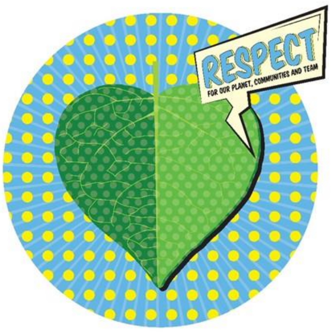
We have a fundamental belief that clearly defined values and associated behaviours are key to us delivering world-class performance at Methven, and were delighted to formally launch these during the year.


### Insight Drives Action

Our customers are the focus of our energy. We learn by asking, listening, watching and reflecting. We love feedback that helps us improve our products and our services. We test insights by action and look to validate our understanding. When we commit to do something, we do it.


### Our Spirit of Innovation

Our belief in our talent to be able to change the world, fuels our Innovation. We're born curious and free thinkers. We push boundaries, we question rules and we are determined to set new standards. We create by doing and learn from our mistakes




### Respect for our Planet, Communities and Team

We lead by example and are proud to make a positive, long term difference to the world. We believe in doing business the right way and that this will benefit our planet and local communities. We choose solutions and materials that decrease our impact on the world. Diversity makes us a stronger team and workplace


### We're in this Together

There are strong family values at the heart of our business. We value long term relationships. We look out for one another. We understand our strengths and we will invest to help the team to realise their potential. We will always celebrate success

## Health and Safety

- New Board Health and Safety Sub-committee formed chaired by Alison Barrass, and vision developed and communicated.
- Intention to transition from Lost Time Injury reporting to total recordable incidents in FY17.
- **Our vision:** To be recognised as an industry leader in setting standards for workplace H&S. We aim to create an injury and illness free workplace with our team where everyone goes home safe and healthy after each day at work of their working life

## Team Development

### Apprentice scheme and international secondment launched

With the move to our new home in Jomac Place, we felt it vital to ensure we invested in future manufacturing skills to support our investment in plant and equipment. We were therefore delighted to launch our new apprentice scheme. Our first two apprentices have been nominated and are currently working towards a National Certificate in Plastics Processing Technology (Injection Moulding) and a National Certificate in Mechanical Engineering (Level 4).

In addition, we seconded a member of our Auckland team to support our commercial team in mainland China for a period of a year. We hope this to be the first of many opportunities for the team to share learnings across geographies.

# Methven Group Directors

## New Director recruitment

As part of our ongoing assessment of skills needed to support Methven's growth ambitions (Methven 130 and beyond) and our overall succession planning, the Board commenced the recruitment process for an additional Director to join the Board.

# Financial Statements

During the period, Methven Limited changed its balance date from March to June. As a result, these audited financial statements are for a fifteen month period to 30 June 2016 compared to a twelve month period to 31 March 2015. It is acknowledged that this makes comparability less meaningful and for this reason, the Summary Report and Market Review on pages 2 to 14 focus on comparing our unaudited performance for the twelve months ended 30 June 2016 to the same period in the prior year.

## Income statement

FOR THE FIFTEEN MONTHS ENDED 30 JUNE 2016

| NZ $000 | Notes | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|---|
| Sales revenue | 2.2 | **129,987** | 96,349 |
| Cost of sales | | **(77,376)** | (52,835) |
| **Gross profit** | | **52,611** | 43,514 |
| Other income | 2.2 | **3,435** | 753 |
| **Expenses** | 2.3 | | |
| Research, design and engineering | | **(2,969)** | (2,558) |
| Sales, distribution, marketing and brand development | | **(29,726)** | (22,367) |
| Administration and other expenses | | **(10,489)** | (9,868) |
| Finance costs | | **(1,711)** | (1,404) |
| **Profit before income tax** | | **11,151** | 8,070 |
| Income tax expense | 2.4 | **(2,557)** | (2,380) |
| **Net profit attributable to shareholders of the parent** | | **8,594** | 5,690 |
| **Earnings per share for profit attributable to the shareholders of the parent:** | | | |
| Basic earnings per share (cents) | 3.8(b) | **12.1** | 8.2 |
| Diluted earnings per share (cents) | 3.8(b) | **12.1** | 8.2 |

## Statement of comprehensive income

FOR THE  FIFTEEN MONTHS ENDED 30 JUNE 2016

| NZ $000 | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|
| **Net profit for the period** | **8,594** | 5,690 |
| **Items that may be reclassified subsequently to profit or loss** | | |
| Movement in foreign currency translation reserve | **(1,106)** | 460 |
| Movement in cashflow hedge reserve | **(1,003)** | 2,130 |
| Income tax relating to items that may be reclassified | **315** | (587) |
| **Total items that may be reclassified subsequently to profit or loss** | **(1,794)** | 2,003 |
| **Other comprehensive income for the period net of tax** | **(1,794)** | 2,003 |
| **Total comprehensive income for the period attributable to the shareholders of the parent** | **6,800** | 7,693 |

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

## Statement of financial position

AS AT 30 JUNE 2016

| NZ $000 | Notes | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **2,240** | 2,008 |
| Trade receivables | 3.1 | **17,911** | 15,259 |
| Inventories | 3.2 | **18,739** | 22,588 |
| Derivative financial instruments | 4.2 | **1,084** | 1,607 |
| Income tax receivable | | **178** | 116 |
| Prepayments and other assets | | **1,480** | 3,011 |
| **Total current assets** | | **41,632** | 44,589 |
| **Non-current assets** | | | |
| Property, plant and equipment | 3.3 | **9,553** | 6,463 |
| Deferred tax assets | 3.5 | **3,162** | 2,279 |
| Intangible assets | 3.4 | **39,406** | 41,827 |
| **Total non-current assets** | | **52,121** | 50,569 |
| **Total assets** | | **93,753** | 95,158 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade creditors | | **10,838** | 9,350 |
| Interest bearing liabilities | 3.6 | **145** | - |
| Derivative financial instruments | 4.2 | **937** | 172 |
| Income tax payable | | **158** | 2,008 |
| Provisions | 5.5(c) | **360** | 385 |
| Other creditors and accruals | | **5,054** | 3,771 |
| Employee accruals | | **2,869** | 2,040 |
| Contingent Consideration | 3.7 | **-** | 1,304 |
| **Total current liabilities** | | **20,361** | 19,030 |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 3.6 | **24,217** | 24,762 |
| Derivative financial instruments | | **-** | 60 |
| Non-current employee accruals | | **173** | 169 |
| Contingent Consideration | 3.7 | **-** | 1,236 |
| **Total non-current liabilities** | | **24,390** | 26,227 |
| **Total liabilities** | | **44,751** | 45,257 |
| **Net assets** | | **49,002** | 49,901 |
| **Equity** | | | |
| Share capital | 3.8 | **52,080** | 52,080 |
| Reserves | | **(10,503)** | (8,820) |
| Retained earnings | | **7,425** | 6,641 |
| **Total equity** | | **49,002** | 49,901 |

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

## Statement of changes in equity

FOR THE PERIOD ENDED 30 JUNE 2016

| NZ $000 | Notes | Share capital | Hedge reserve | Share-based payments reserve | Currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2014** | | 46,986 | (742) | - | (10,167) | 6,788 | 42,865 |
| Movement in foreign currency translation reserve | | - | - | - | 460 | - | 460 |
| Movement in cashflow hedge reserve | | - | 2,130 | - | - | - | 2,130 |
| Movement in deferred tax on hedge reserve | | - | (587) | - | - | - | (587) |
| Profit for the year | | - | - | - | - | 5,690 | 5,690 |
| **Total comprehensive income** | | **-** | **1,543** | **-** | **460** | **5,690** | **7,693** |
| Dividends | 3.8 | - | - | - | - | (5,837) | (5,837) |
| Shares issued | 3.8 | 5,094 | - | - | - | - | 5,094 |
| Movement in share based payments reserve | | - | - | 86 | - | - | 86 |
| **Balance at 31 March 2015** | | **52,080** | **801** | **86** | **(9,707)** | **6,641** | **49,901** |
| | | | | | | | |
| **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 | 3.8 | - | - | - | - | (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 statement of changes in equity should be read in conjunction with the accompanying notes.*

## Cash flow statement

FOR THE PERIOD ENDED 30 JUNE 2016

| NZ $000 | Notes | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|---|
| **Cashflows from operating activities** | | | |
| Receipts from customers | | **125,652** | 96,474 |
| Government grants | | **696** | 780 |
| Payments to suppliers | | **(77,467)** | (66,825) |
| Payments to employees | | **(27,412)** | (21,097) |
| | | **21,469** | 9,332 |
| Interest received | | **1** | 6 |
| Interest paid | | **(1,714)** | (1,315) |
| Income taxes paid | | **(5,026)** | (1,766) |
| **Net cash inflow from operating activities** | **5.5(a)** | **14,730** | 6,257 |
| **Cashflows from investing activities** | | | |
| Payments for property, plant and equipment, patents, trademarks and software | | **(5,685)** | (3,358) |
| Payments to acquire Invention Sanitary | | **-** | (5,402) |
| Proceeds from sale of property, plant and equipment | | **32** | 14 |
| **Net cash outflow from investing activities** | | **(5,653)** | (8,746) |
| **Cashflows from financing activities** | | | |
| Issue of ordinary shares | | **-** | 150 |
| Proceeds from / (Repayment of) borrowings | | **(888)** | 8,058 |
| Dividends paid | | **(7,810)** | (5,837) |
| **Net cash inflow/(outflow) from financing activities** | | **(8,698)** | 2,371 |
| **Net decrease in cash and cash equivalents** | | **379** | (118) |
| Cash and cash equivalents at the beginning of the financial period | | **2,008** | 2,104 |
| Foreign currency translation adjustment | | **(147)** | 22 |
| **Cash and cash equivalents at end of period** | | **2,240** | 2,008 |

*The above cash flow statement should be read in conjunction with the accompanying notes.*

## Notes to the financial statements
FOR THE PERIOD ENDED 30 JUNE 2016

| | | Pg. |
|---|---|---|
| **1.** | **General information** | |
| | 1.1 Reporting entity and statutory base | 7 |
| | 1.2 Basis of preparation | 7 |
| | 1.3 Group structure | 7 |
| | 1.4 New and amended standards adopted by the Group | 8 |
| | 1.5 Key changes during the period | 9 |
| | 1.6 Critical accounting estimates | 10 |
| **2.** | **Profit and loss information** | |
| | 2.1 Segment information | 11 |
| | 2.2 Sales revenue & other income | 13 |
| | 2.3 Expenses | 14 |
| | 2.4 Income tax expense | 15 |
| **3.** | **Financial position information** | |
| | 3.1 Current assets - trade receivables | 16 |
| | 3.2 Current assets - Inventories | 17 |
| | 3.3 Non-current assets – Property, plant and equipment | 17 |
| | 3.4 Non-current assets – Intangibles assets | 19 |
| | 3.5 Non-current deferred tax | 22 |
| | 3.6 Interesting bearing liabilities | 23 |
| | 3.7 Contingent consideration | 24 |
| | 3.8 Equity | 24 |
| **4.** | **Financial risk management** | |
| | 4.1 Capital management | 26 |
| | 4.2 Market risk | 26 |
| | 4.3 Credit risk | 30 |
| | 4.4 Liquidity risk | 30 |
| **5.** | **Other information** | |
| | 5.1 Related party transactions | 32 |
| | 5.2 Commitments | 33 |
| | 5.3 Contingencies | 33 |
| | 5.4 Events occurring after the reporting period | 34 |
| | 5.5 Other disclosures | 34 |

# 1. General information

### 1.1 Reporting entity

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 25 August 2016. The directors do not have the power to amend these financial statements after issuance.

**Statutory base**

Methven Limited is a company registered under the Companies Act 1993 and is a Financial Markets Conduct reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

### 1.2 Basis of preparation

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS). These accounting policies have been applied consistently to all years previously presented unless otherwise stated.

### 1.3 Group Structure

**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 the entity operates (‘the functional currency’). The consolidated financial statements are presented in New Zealand dollars.

**Consolidation policy**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Methven Limited as at balance date and the results of all subsidiaries for the period then ended.

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

Subsidiaries which form part of the Group are 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 of the Group.

Refer to note 5.5(b) for subsidiaries within the Group.

### 1.4 New and amended standards adopted by the Group

No new standards that became effective during the year have been assessed as having a material impact on the Group.

The International Accounting Standards Board has issued a number of other standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements. These are detailed below. The Group has not yet applied these in preparing these financial statements and will apply each standard in the period in which they become mandatory.

| Standard | Nature of change | Impact | Mandatory application date / Date adopted by the Group |
|---|---|---|---|
| NZ IFRS 16<br>*Leases* | When adopted, NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Included is an optional exemption for certain short-term leases and leases of low-value assets | Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. | Must be applied for periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15. The group has yet to assess the impact of this standard. |
| NZ IFRS 9<br>*Financial instruments (2014)* | In July 2014, the IASB issued a complete version of the standard. This standard adds to the requirements of NZ IFRS 9 by incorporating the expected credit loss model for calculating the impairment of financial assets. | IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. The new standard also introduces expanded disclosure requirements. The transition rules for IFRS 9 only allow a six month period up to February 2015 to early adopt other versions of IFRS 9. After this date, an entity may only early adopt the complete standard. | Must be applied for periods beginning or after 1 January 2018. The group has yet to assess the impact of this standard. |
| NZ IFRS 15<br>*Revenue from contracts with customers* | When adopted the standard will replace the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. | The standard sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. | Must be applied for periods beginning or after 1 January 2017. The group is still assessing the potential impact of adopting this new standard. The group has not yet decided when to adopt NZ IFRS 15. |

### 1.5 Key changes during the period

The following key changes to Methven Limited's business have occurred during the 15 months ended 30 June 2016:

- During the period the company changed its financial year-end from 31 March to 30 June so as to:
  - More evenly spread trading days over its first and second half year periods;
  - Improve the predictability of year end results by removing stock, and therefore debt, volatility caused by Chinese New Year in February; and
  - Improve the predictability of year end results by having more time to react to the volatile December and January trading months.

  It is acknowledged that the change in balance date, resulting in a 15 month reporting period, makes comparative reporting against a 12 month period less meaningful. However unaudited comparatives of certain key financial features for the 12 months ended 30 June have been included in the commentary section on pages 2 to 14.
- As a part of the change of balance date the company announced a special dividend of 3.0 cents per share paid in December 2015. The company has now changed its dividend payment dates to March and September of each year (previously June and December).
- Significant investments were made in the 2015 financial year in marketing and operational capability including the launch of Aurajet ® technology and a new digital strategy. During the 12 months ended 30 June 2016 sales grew 8.1% with a significant portion of this directly linked to the investments made in the prior year.
- Investment in property, plant, tooling and other production equipment increased $4.1 million on the prior period. This increase was largely driven by the NZ and UK businesses premise relocations, production equipment and the current period being 15 months versus 12 month prior period.
- During the period there were a number of non-recurring items as detailed in the table below. Methven comments on net profit after tax excluding non-recurring items, a non-GAAP measure, to provide data that is useful in understanding the underlying and on-going operations of the Group.

| CONSOLIDATED | Reported in | 15 mths ended 30 Jun 16 | 12 mths ended 31 Mar 15 |
|---|---|---|---|
| Reported net profit after tax | | 8,594 | 5,690 |
| Inventory provision adjustment | Cost of sales | 1,821 | - |
| Relocation costs | Cost of sales | 758 | - |
| Contingent Consideration release | Other Income | (2,729) | - |
| Merger and acquisiton costs | Expenses | - | 360 |
| Legal Fees | Expenses | 431 | 234 |
| Marketing credits writedown | Expenses | 152 | - |
| Restructuring Costs | Expenses | 77 | 199 |
| Total non-recurring items | | 510 | 793 |
| **Net profit after tax excluding non-recurring items** | | 9,104 | 6,483 |

- During the period the Group cleared a total of $1.4 million of slow moving and obsolete inventory. This was a record for the group and gave us unprecedented learning about the value we could realise for older inventory, and highlighted that the provision assumptions used previously were inadequate. As a result, we conducted a detailed review at all sites and compared it with our best case example in the UK where ageing stock has been cleared effectively over a number of years. As a result of this review, we concluded that we needed to record a one-off provision of $1.8 million to cover clearance of older stock across NZ, Australia and Heshan
- The Group relocated both the UK office and the NZ Head Office and manufacturing operation to new leasehold sites. These sites provide us with the opportunity to open market leading Experience Centres and to recognise our long term commitment to manufacturing in New Zealand, implementing Design, Engineering, Toolmaking, Foundry, Polishing and Assembly on site. Relocation costs were incurred during the period of $0.8 million
- The earnings delivered from the Invention Sanitary acquisition were in line with expectation and full integration has now been achieved with the successful transition of the leadership team led by Andy Chen. Hui Zhuang (Invention Sanitary vendor) retired from the business in December 2015. Working capital has remained higher than foreseen during due diligence, and in May 2016 agreement was reached with Mr Zhuang to forfeit any earnout that arose from the acquisition despite realising anticipated earnings, given the extent of increased working capital delivered on settlement. As a result the $2.7 million Contingent Consideration liability was released to the Income Statement during the period. Refer note 3.7.
- Merger and Acquisition costs relate to the agreement to acquire the business assets Invention Sanitary.
- Legal fees relate to costs incurred to successfully defend a claim by a former service provider.

**1.5 Key changes during the period (continued)**

- Marketing Credits asset held on the Australia balance sheet, have been written down reflecting actual usage.
- Restructuring costs relate to one-off costs as a result of organisational changes made in the China and UK segments.

### 1.6 Critical Accounting Estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The Group has made critical accounting estimates relating to the following amounts:

- UK Goodwill – these relate to the assumptions used to determine the underlying recoverability of Goodwill. Refer to note 3.4(a).
- Deferred tax assets – these relate to the assumption that future taxable profits will be earned by the UK business to utilise UK tax losses. Refer to note 3.5.
- Inventory valuation – these relate to the assumptions used to determine the net realisable value of inventories. Refer to note 3.2.

## 2. Profit and loss information

### 2.1 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.

**Group operations**

The group operations are the global base for:

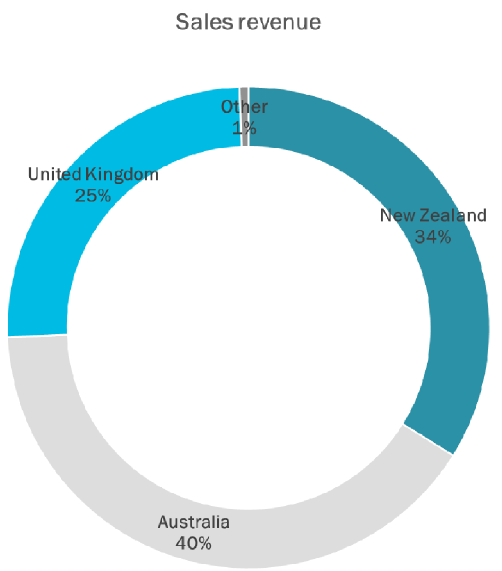
- supply chain services with products sourced by Group Operations on behalf of the other segments,
- research and development leading to new design, technology and Intellectual Property,
- marketing and brand development activity,
- manufacturing operations including locations in New Zealand and China, and
- strategic and management support, IT and corporate services.

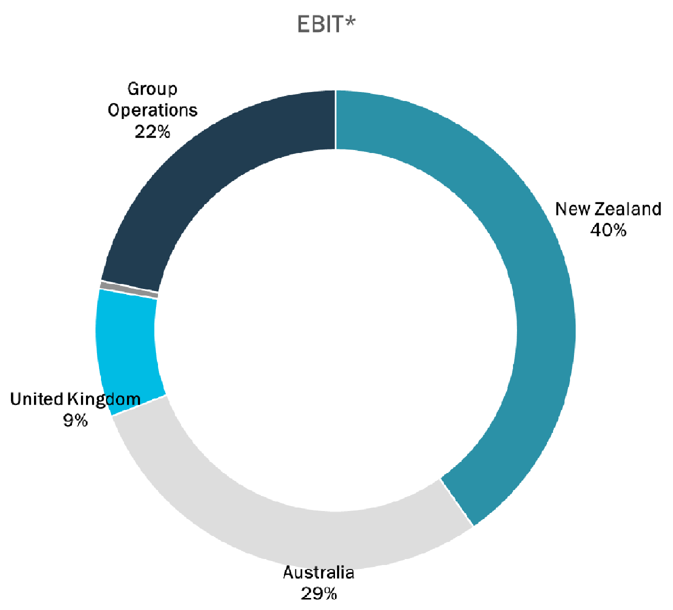
**New Zealand**
Comprises sales and marketing operations in New Zealand supplying showerware, tapware and domestic water control valves.

**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 chief operating decision makers (CODM).




*EBIT is defined as earnings before interest, tax and non-recurring items.

| 15 mths ended 30 Jun 16<br>NZ $000 | New Zealand | Australia | UK | Group Operations | Inter-segment eliminations/ unallocated and Other | Total |
|---|---|---|---|---|---|---|
| Sales revenue from external customers | 44,048 | 52,627 | 32,528 | 770 | 14 | **129,987** |
| Sales revenue from internal customers | - | 67 | 1 | 36,925 | (36,993) | **-** |
| Total sales revenue | 44,048 | 52,694 | 32,529 | 37,695 | (36,979) | **129,987** |
| Earnings before interest and tax | 5,823 | 1,944 | 1,000 | 4,174 | (79) | **12,862** |
| Interest received/(paid) | - | (300) | (927) | (484) | - | **(1,711)** |
| Net profit before income tax | 5,823 | 1,644 | 73 | 3,690 | (79) | **11,151** |
| Income tax (expense) / credit | (1,594) | (495) | (112) | (339) | (17) | **(2,557)** |
| Net profit/(loss) for the period | 4,229 | 1,149 | (39) | 3,351 | (96) | **8,594** |
| Non-recurring items (note 1.5) | | | | | | **510** |
| Net profit after tax excluding non-recurring items | | | | | | **9,104** |

| 12 mths ended 31 Mar 15 (restated**)<br>NZ $000 | New Zealand | Australia | UK | Group Operations | Inter-segment eliminations/ unallocated and Other | Total |
|---|---|---|---|---|---|---|
| Sales revenue from external customers | 32,114 | 38,884 | 24,423 | 539 | 389 | 96,349 |
| Sales revenue from internal customers | - | 53 | 11 | 24,657 | (24,721) | - |
| Total sales revenue | 32,114 | 38,937 | 24,434 | 25,196 | (24,332) | 96,349 |
| Earnings before interest and tax | 4,367 | 2,624 | 393 | 2,118 | (34) | 9,468 |
| Interest received/(paid) | - | (352) | (704) | (342) | - | (1,398) |
| Net profit before income tax | 4,367 | 2,272 | (311) | 1,776 | (34) | 8,070 |
| Income tax (expense) / credit | (1,324) | (683) | 35 | (514) | 106 | (2,380) |
| Net profit/(loss) for the year | 3,043 | 1,589 | (276) | 1,262 | 72 | 5,690 |
| Non-recurring items (note 1.5) | | | | | | 793 |
| Net profit after tax excluding non-recurring items | | | | | | 6,483 |

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

### (b) Notes to and forming part of the segment information

Revenue from the Group’s top 5 customers comprises 44% (2015: 45%) of the total Group revenue. Revenue from the top 5 customers is spread across our New Zealand and Australia segments. The Group's largest customer accounts for 16% of the Group's revenue (2015: 14%) and is spread across the New Zealand and Australia segments.

The assets and liabilities of the Group are reported to the CODM in total and not allocated by operating segment.

### (c) Transactions between segments

The services that the Group Operations segment provides that can be reasonably attributed to the other trading segments are principally:

- the sale of finished product at agreed unit prices;
- the use of intellectual property on agreed royalty fee basis;
- shared costs such as Supply Chain, Marketing and IT attributed based on time, complexity and proximity.

Group Operations also provides unsecured loans to subsidiaries, representing funding for no fixed term and bear interest rates between 3% and 6% (2015: between 3% and 6%). Group Operations pays marketing support fees to China sales.

All transactions between segments were in the normal course of business and provided on commercial terms.

### 2.2 Sales revenue and other income

Sales revenue comprises the fair value of the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of goods and service tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

***Recognition and measurement:***

***(i) Sales of goods***
*Sales of goods are recognised when risks and rewards associated with ownership of the goods have been transferred and collectability of the related receivables is reasonably assured.*

***(ii) Interest income***
*Interest income is recognised on a time-proportion basis using the effective interest method.*

***(iii) Government grants***
*Methven received Grants related to Research and Development activity and International Growth initiatives as funded by Callaghan Innovation and New Zealand Trade and Enterprises. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Other grants are recognised as accrued income when there is a reasonable assurance that they will be received and that the Group will comply with the conditions associated with the Grant. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.*

| NZ $000 | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|
| Sales revenue from sale of goods | **129,987** | 96,349 |
| **Other income** | | |
| Interest | **1** | 6 |
| Government grants | **705** | 747 |
| Contingent consideration released (note 3.7) | **2,729** | - |
| | **3,435** | 753 |

### 2.3 Expenses

| NZ $000 | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|
| Depreciation (note 3.3) | **2,878** | 2,011 |
| Amortisation (note 3.4) | **1,832** | 1,203 |
| **Finance costs** | | |
| Interest charges | **1,711** | 1,310 |
| **Rental expense relating to operating leases** | | |
| Minimum lease payments | **2,731** | 2,061 |
| **Sundry expenses** | | |
| Donations | **14** | 5 |
| Directors' fees (note 5.1) | **314** | 249 |
| Bad and doubtful debts expense/(recovery) | **11** | (2) |
| **Employee benefit expense** | | |
| Wages, salaries and short term benefits | **28,528** | 20,935 |
| Termination benefits | **307** | 440 |
| Employee share option expense (note 5.1) | **111** | 86 |
| **Remuneration of auditors:** | | |
| **Audit of financial statements** | | |
| Audit of financial statements (i) | **273** | 281 |
| **Other services** | | |
| Other services (ii) | **56** | 126 |
| **Total other services** | **56** | 126 |
| **Total fees paid to auditor** | **329** | 407 |

(i) The audit fee includes the fees for both the annual audit of the financial statements and agreed upon procedures for interim financial statements.

(ii) Other services include review engagements associated with grant compliance reporting and interim review services related to the liquidation of UK subsidiary Windsor Water Fittings Limited. In the prior year this also included technical acquisition accounting services in relation to the acquisition of Invention Sanitary.

The Group's auditor independence policy requires that in a financial year, fees paid to the Group's external audit provider for non-audit related services should not exceed 25% of all fees paid to that provider. Fees paid to PricewaterhouseCoopers in the current period for non-audit related services were 17% of total fees paid.

### 2.4 Income tax expense

***Recognition and measurement:***

*The income tax expense recognised for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses expected to be utilised.*

| NZ $000 | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|
| **(a) Income tax expense** | | |
| Current tax expense: | | |
| Current tax | **3,249** | 3,056 |
| Adjustment for prior year | **(74)** | (39) |
| | **3,175** | 3,017 |
| Deferred tax expense (note 3.5) | | |
| Origination and reversal of temporary differences | **(673)** | (639) |
| Reduction in company tax rates | **49** | (5) |
| Adjustment for prior year | **6** | 7 |
| | **(618)** | (637) |
| **Income tax expense** | **2,557** | 2,380 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | |
| Profit before income tax expense | **11,151** | 8,070 |
| Tax at 28% (2015: 28%) | **3,122** | 2,260 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | **(451)** | 154 |
| Difference in overseas tax rates | **(111)** | 75 |
| Adjustment for prior year | **(52)** | (104) |
| Reduction in company tax rates | **49** | (5) |
| **Income tax expense** | **2,557** | 2,380 |

The weighted average effective tax rate for the Group was 23.0% (2015: 29.5%).

**(c) Imputation credits**
Imputation credits available for use in subsequent periods were $6,000 (2015:$1,483,000).

# 3. Financial position information

### 3.1 Current assets - Trade receivables

| NZ $000 | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| Trade receivables | **18,352** | 15,537 |
| Provision for doubtful receivables | **(441)** | (278) |
| | **17,911** | 15,259 |

***Recognition and measurement:***
*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 the receivables. An estimate is made for doubtful receivables based on a review of all outstanding amounts at period end.*

The fair value of trade receivables approximates their carrying value. No interest has been charged on trade receivables.

The carrying amounts of the Group's trade receivables were denominated in the following currencies:

| NZ $000 | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| NZD | **6,138** | 4,054 |
| AUD | **6,941** | 6,797 |
| GBP | **4,634** | 4,284 |
| RMB | **15** | 15 |
| USD | **183** | 109 |
| | **17,911** | 15,259 |

**Credit risk**

The maximum exposure to credit risk in relation to trade receivables at the reporting date is the carrying value of receivables mentioned above.

As at 30 June 2016, Group trade receivables of $441,000 (2015: $278,000) were considered impaired and provided for. These are mainly due to debtors who are experiencing financial difficulties or outstanding disputes. The ageing analysis is as follows:

| NZ $000 | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| 1 to 6 months | **381** | 219 |
| Over 6 months | **60** | 59 |
| | **441** | 278 |

As at 30 June 2016 1.6% (2015: 2.2%) of the Groups receivables were overdue by more than 90 days but not considered doubtful. These relate to a number of accounts for which there is no history of default.

There is a high concentration of market share and distribution reach in the buildings supply sector in our markets. This has implications for suppliers in terms of customer base concentration and credit risk. As at 30 June 2016 the Group had two customer balances greater than 10% of total trade receivables. One customer balance comprised 13% (2015: 14%) of Group trade receivables and the other accounted for 10% (2015: 9%).

The Group's exposure to a concentration of credit risk is reduced due to the geographical spread of the Group's operations and customers. Credit insurance is taken where economically available to cover material exposure of the Group's offshore and domestic receivables. If customers are independently rated, these ratings are used in combination with management's assessment of the credit quality of the customer, taking into account its financial position, past experience and other internal and external factors. Individual risk limits are set based on internal or external ratings. The compliance with credit limits by customers is regularly monitored by management.

### 3.2 Current assets – Inventories

***Recognition and measurement:***

*Raw materials, work in progress and finished goods are stated at the lower of cost and anticipated net realisable value. Cost is determined using the first in, first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs and intercompany margins. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories includes the transfer from equity of any gains/losses on qualifying cash flow hedges.*

| NZ $000 | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| Raw materials and components | **6,545** | 7,617 |
| Work in progress | **776** | 757 |
| Finished goods | **14,612** | 15,634 |
| Provision for inventory obsolescence | **(3,194)** | (1,420) |
| **Net inventories** | **18,739** | 22,588 |

**Critical accounting estimate**

As referenced in note 1.5, the Group recognised a non-recurring increase to inventory provisions during the period of $2.6 million (2015: $Nil). This assessment was based on the learnings gained from inventories that had been liquidated during the period and then applied to estimate the net realisable value of inventories at balance date. While no further material change in the net realisable values of inventory is expected, it is reasonably possible that inventories are liquidated above or below the estimated net realisable values.

Group inventories recognised as an expense (within cost of sales) during the period ended 30 June 2016 amounted to $64,490,000 (2015: $47,580,000).

The Group recognised a net increase of $1,774,000 (2015: decrease $119,000) in respect of the movement in provision for inventory obsolescence and adjustment of inventories to net realisable value. The provision movement is included in 'cost of sales' in the income statement.

No other movements have been recognised in the income statement in respect of inventory written down to net realisable value.

### 3.3 Non-current assets - Property, plant and equipment

***Recognition and measurement:***

*All property, plant and equipment are stated at historical cost less depreciation and any impairment losses. 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 separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the costs of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.*

*Depreciation of property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:*

| | |
|---|---|
| Motor vehicles | 3 – 5 years |
| Plant and equipment | 3 – 20 years |
| Fixtures, fittings and office equipment | 3 – 12 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 less than its estimated recoverable amount.*

*Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.*

| NZ $000 | Capital work in progress | Plant, fixtures, fittings and equipment | Motor vehicles | Total |
|---|---|---|---|---|
| **As at 1 April 2014** | | | | |
| Cost | 387 | 21,105 | 251 | 21,743 |
| Accumulated depreciation | - | (16,794) | (230) | (17,024) |
| Net book amount | 387 | 4,311 | 21 | 4,719 |
| **Year ended 31 March 2015** | | | | |
| Opening net book amount | 387 | 4,311 | 21 | 4,719 |
| Effect of movement in exchange rates | - | 81 | 1 | 82 |
| Additions | 1,489 | 798 | 2 | 2,289 |
| Assets acquired from Invention Sanitary (refer note 3) | - | 1,375 | 16 | 1,391 |
| Transferred completed work in progress | (829) | 820 | 9 | - |
| Depreciation charge | - | (1,995) | (16) | (2,011) |
| Disposals | - | (7) | - | (7) |
| Closing net book amount | 1,047 | 5,383 | 33 | 6,463 |
| **As at 31 March 2015** | | | | |
| Cost | 1,047 | 23,649 | 273 | 24,969 |
| Accumulated depreciation | - | (18,266) | (240) | (18,506) |
| Net book amount | 1,047 | 5,383 | 33 | 6,463 |
| **As at 31 March 2015** | | | | |
| New Zealand | 1,047 | 2,779 | 12 | 3,838 |
| Australia | - | 855 | 5 | 860 |
| United Kingdom | - | 149 | - | 149 |
| China | - | 1,600 | 16 | 1,616 |
| Net book amount | 1,047 | 5,383 | 33 | 6,463 |

| NZ $000 | Capital work in progress | Plant, fixtures, fittings and equipment | Motor vehicles | Total |
|---|---|---|---|---|
| **Period ended 30 June 2016** | | | | |
| Opening net book amount | 1,047 | 5,383 | 33 | 6,463 |
| Effect of movement in exchange rates | - | (19) | (7) | (26) |
| Additions | 5,081 | 1,218 | 88 | 6,387 |
| Transferred completed work in progress | (4,816) | 4,816 | - | - |
| Depreciation charge | - | (2,863) | (15) | (2,878) |
| Disposals | - | (384) | (9) | (393) |
| Closing net book amount | 1,312 | 8,151 | 90 | 9,553 |
| **As at 30 June 2016** | | | | |
| Cost | 1,312 | 23,898 | 344 | 25,554 |
| Accumulated depreciation | - | (15,747) | (254) | (16,001) |
| Net book amount | 1,312 | 8,151 | 90 | 9,553 |
| **As at 30 June 2016** | | | | |
| New Zealand | 1,312 | 5,756 | 7 | 7,075 |
| Australia | - | 623 | - | 623 |
| United Kingdom | - | 246 | - | 246 |
| China | - | 1,526 | 83 | 1,609 |
| Net book amount | 1,312 | 8,151 | 90 | 9,553 |

### 3.4 Non-current assets - Intangible assets

Non-current intangible assets include the following categories, accounting treatment and amortisation methods:

***Recognition and measurement:***

| **Category** | **Accounting treatment** | **Amortisation method** |
|---|---|---|
| *Goodwill* | *Represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.* | *Goodwill acquired in business combinations is not amortised, but 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.* |
| *Patents and trademarks* | *The registration cost of patents and trademarks are capitalised from the date of application. They have a definite useful life and are carried at cost less accumulated amortisation. Capitalised costs relating to applications that are turned down are expensed immediately into the income statement.* | *Straight-line method over estimated useful life of 6 - 20 years.* |
| *Research and development* | *Research expenditure is recognised as an expense as incurred. Development costs are recognised as assets if the costs directly relate to new or improved products and processes, where the product or process is technically and commercially feasible with the probability of future economic benefits. Otherwise, the costs of development activities are expensed as incurred.* | *Straight-line method over estimated useful life of 5 years.* |
| *Computer software* | *Acquired computer software and licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programs are recognised as an expense when incurred.* | *Straight-line method over estimated useful life of 3-10 years.* |
| *Customer relations* | *Customer relations acquired on business acquisition are capitalised based on the fair value of cash flows forecast to be derived from the relationship. The relationships are deemed to have a finite useful life and are carried at cost less accumulated amortisation and impairment.* | *Straight line method to allocate the cost of the asset over its useful life of 10 years.* |

***Impairment of non-financial assets***

*Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation 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.*

*Where internal costs are incurred in the production of certain intangible assets these costs are capitalised and recognised as internally generated intangible assets.*

### 3.4 Non-current assets - Intangible assets (continued)

| NZ $000 | Goodwill | Software | Patents & trademarks | Customer relations | Total |
|---|---|---|---|---|---|
| **As at 1 April 2014** | | | | | |
| Cost | 29,196 | 3,637 | 1,609 | 7,799 | 42,241 |
| Accumulated amortisation | - | (2,106) | (843) | (5,700) | (8,649) |
| Net book amount | 29,196 | 1,531 | 766 | 2,099 | 33,592 |
| **Year ended 31 March 2015** | | | | | |
| Opening net book amount | 29,196 | 1,531 | 766 | 2,099 | 33,592 |
| Effect of movement in exchange rates | 843 | 47 | - | 68 | 958 |
| Additions | 7,339 | 763 | 381 | - | 8,483 |
| Amortisation charge | - | (448) | (114) | (641) | (1,203) |
| Disposals | - | (3) | - | - | (3) |
| Closing net book amount | 37,378 | 1,890 | 1,033 | 1,526 | 41,827 |
| **As at 31 March 2015** | | | | | |
| Cost | 37,378 | 4,357 | 1,989 | 8,019 | 51,743 |
| Accumulated amortisation | - | (2,467) | (956) | (6,493) | (9,916) |
| Net book amount | 37,378 | 1,890 | 1,033 | 1,526 | 41,827 |
| **As at 31 March 2015** | | | | | |
| New Zealand | 3,504 | 837 | 796 | - | 5,137 |
| Australia | 1,871 | 36 | - | - | 1,907 |
| United Kingdom | 24,491 | 650 | 237 | 1,526 | 26,904 |
| China | 7,512 | 367 | - | - | 7,879 |
| Net book amount | 37,378 | 1,890 | 1,033 | 1,526 | 41,827 |
| **Period ended 30 June 2016** | | | | | |
| Opening net book amount | 37,378 | 1,890 | 1,033 | 1,526 | 41,827 |
| Effect of movement in exchange rates | (1,096) | (2) | (18) | 59 | (1,057) |
| Additions | - | 165 | 303 | - | 468 |
| Amortisation charge | - | (703) | (249) | (880) | (1,832) |
| Disposals | - | - | - | - | - |
| Closing net book amount | 36,282 | 1,350 | 1,069 | 705 | 39,406 |
| **As at 30 June 2016** | | | | | |
| Cost | 36,282 | 4,400 | 2,165 | 7,675 | 50,522 |
| Accumulated amortisation | - | (3,050) | (1,096) | (6,970) | (11,116) |
| Net book amount | 36,282 | 1,350 | 1,069 | 705 | 39,406 |
| **As at 30 June 2016** | | | | | |
| New Zealand | 3,504 | 599 | 794 | - | 4,897 |
| Australia | 1,872 | 11 | - | - | 1,883 |
| United Kingdom | 23,440 | 485 | 275 | 705 | 24,905 |
| China | 7,466 | 255 | - | - | 7,721 |
| Net book amount | 36,282 | 1,350 | 1,069 | 705 | 39,406 |

### (a) Impairment tests for goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of the assets attributable to goodwill is determined based on value in use calculations for each Cash Generating Unit (CGU) that the intangible asset relates to. The relevant CGUs are set out in the table below.

The calculations use cash flow projections based on past performance adjusted for expectations of future events, including expectations of future market conditions. The key forecast assumptions are based on management forecasts to June 2018 (UK) and June 2017 (New Zealand and Australia). Cash flows beyond these dates are extrapolated using the estimated growth rates in the table below. The growth rates have been derived with reference to externally sourced growth forecasts of GDP in the respective markets. The discount rates used in the impairment tests have been calculated with reference to externally sourced market information specific to each region. The tests did not indicate any impairment as at 30 June 2016. No impairment has been recognised in any of the prior periods presented.

| | New Zealand | Australia | UK | China manufacturing | Total |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Goodwill NZ$000 | 3,504 | 1,872 | 23,440 | 7,466 | 36,282 |
| Terminal growth rate | 2.2% | 3.5% | 2.2% | 2.9% | |
| Discount rate | 8.2% | 8.0% | 9.0% | 10.4% | |
| **2015** | | | | | |
| Goodwill NZ$000 | 3,504 | 1,871 | 24,491 | 7,512 | 37,378 |
| Terminal growth rate | 2.2% | 3.5% | 2.6% | 2.9% | |
| Discount rate | 8.2% | 8.0% | 9.0% | 8.1% | |

**Critical Accounting Estimate**

Management does not expect reasonably possible changes in key assumptions would reduce the recoverable amount of the New Zealand, Australia and China manufacturing CGU below its carrying amount. In respect of the UK CGU reasonably possible changes in key assumptions have been tested and no impairment is indicated. These are set out below:

| Key Assumptions | Variation | UK Goodwill Impairment NZ$000 |
|---|---|---|
| Terminal year sales growth rate | -1.0% | No impairment |
| Sales growth rate reduction (percentage points) | - 60.0% | No Impairment |
| Discount rate (percentage points) | +1.0% | No Impairment |

However it is acknowledged that given the uncertain environment, changes to key assumptions beyond managements control cannot be discounted entirely and impairment testing will continue to be monitored regularly.

### 3.5 Non-current deferred tax

***Recognition and measurement:***

*Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.*

*Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments of operations where the Group 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.*

**Critical Accounting Estimate**

Judgement is required in relation to the recognition of carried forward tax losses as deferred tax assets, in particular in our UK business. The Group has recognised $696,000 of deferred UK tax losses. The Group assesses whether there will be sufficient future taxable profits in the UK to utilise the losses based on forecast earnings. The UK business utilised $288,000 of tax losses during the period and there is no expiration date on the remaining tax losses.

| NZ $000 | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| **(a) The balance comprises temporary differences attributable to:** | | |
| Depreciation | **648** | 603 |
| Provisions and accruals | **1,847** | 1,207 |
| Customer relations | **(139)** | (305) |
| Tax losses | **696** | 993 |
| Derivative financial instruments | **110** | (219) |
| | **3,162** | 2,279 |
| **(b) Movements:** | | |
| **Opening balance** | **2,279** | 2,212 |
| Credited to the income statement (note 2.4) | **618** | 637 |
| Charged (credited) to equity | **316** | (587) |
| Movement between current and deferred tax balance | **(39)** | (12) |
| Foreign exchange differences | **(12)** | 29 |
| **Closing balance** | **3,162** | 2,279 |
| **(c) Income/(expense) recognised in income statements:** | | |
| Depreciation | **44** | 186 |
| Provisions and accruals | **684** | 125 |
| Customer relations | **178** | 135 |
| Tax losses | **(288)** | (176) |
| Other | **-** | 367 |
| | **618** | 637 |

In respect of each temporary difference, the table above summarises the amount of income/(expense) recognised in the income statements.

| NZ $ | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| Deferred tax asset to be recovered after more than 12 month | **1,194** | 1,630 |
| Deferred tax asset to be recovered within 12 months | **2,196** | 1,010 |
| **Total deferred tax assets** | **3,390** | 2,640 |
| Deferred tax liability to be recovered after more than 12 months | **(19)** | (358) |
| Deferred tax liability to be recovered within 12 months | **(209)** | (3) |
| **Total deferred tax liabilities** | **(228)** | (361) |
| **Net deferred tax assets** | **3,162** | 2,279 |

### 3.6 Interest bearing liabilities

***Recognition and measurement:***

*Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.*

| **As at 30 June 2016** | Currency | Facility limit (000's) | Expiry | Current NZ $000 | Non-current NZ $000 |
|---|---|---|---|---|---|
| Bank facility - BNZ loan | NZD | $24,510 | Apr 2019 | - | 18,775 |
| Bank facility – Yorkshire Bank Loan | GBP | £2,750 | Apr 2019 | - | 4,728 |
| | | | | - | 23,503 |
| Finance leases (note 5.2(ii)) | NZD | | | 145 | 714 |
| | | | | 145 | 24,217 |

| **As at 31 March 2015** | Currency | Facility limit (000's) | Expiry | Current NZ $000 | Non-current NZ $000 |
|---|---|---|---|---|---|
| Bank facility - BNZ loan | NZD | $24,000 | Apr 2016 | - | 20,810 |
| Bank facility - Yorkshire Bank loan | GBP | £3,500 | Apr 2016 | - | 3,952 |
| | | | | - | 24,762 |
| Finance leases (note 5.2(ii)) | NZD | | | - | - |
| | | | | - | 24,762 |

**Security**

The bank facilities are secured by way of a general security agreement over the Parent's (Methven Limited) assets with supporting guarantees from all material subsidiaries, and have been advanced to the Group subject to compliance with the following financial covenants:

(a) the interest cover ratio for the Group shall not be less than 2.5 times. As at 30 June 2016 the Group complied with this covenant with an interest cover over the 12 months to 30 June 2016 of 8.8 times (31 March 2015: 9.1 times).

(b) the gearing ratio for the Group (net debt divided by earnings before interest tax and amortisation(EBITA)) shall not exceed 3.5 times. As at 30 June 2016 the Group complied with this covenant with a gearing ratio over the 12 months to 30 June 2016 of 2.0 times (31 March 2015: 2.0 times).

(c) the Guaranteeing Group holds not less than 85% of total assets and earns not less than 85% of total earnings before interest, tax, depreciation and amortisation (EBITDA). As at 30 June 2016 the Group complied with this covenant with 86% of total assets, and 86% of EBITDA (31 March 2015: 93% of total assets and 95% of EBITDA). The Guaranteeing Group comprised the Parent and all subsidiaries excluding Methven (Xiamen) Trading Co Ltd and Heshan Methven Bathroom Fitting Co Ltd.

Compliance with all banking covenants has been maintained during the period.

**Interest rates**

The weighted average effective interest rate on borrowings was 5.5% (2015: 5.8%).

**Non GAAP measures**

Methven comments on Net Debt, a non-GAAP measure, to provide data that management uses in assessing the financial position of the Group.

**Reconciliation of Net Debt to the consolidated balance sheet**

| **NZ $000** | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| Cash and cash equivalents | **2,240** | 2,008 |
| Finance leases | **(859)** | - |
| Bank facility loans | **(23,503)** | (24,762) |
| **Net Debt** | **(22,122)** | (22,754) |

### 3.7 Contingent consideration

***Recognition and measurement:***

*The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.*

*The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entities and translated at the closing rate.*

As part of the acquisition consideration relating to Invention Sanitary the vendor was eligible to earn an uplift to the purchase price of four times the amount by which net profit after tax (NPAT) exceeded RMB 12.3 million (NZD$2.7 million) per annum, up to a maximum of RMB 6.15 million (NZD$1.35 million) for each of the years ending 30 June 2015 and 30 June 2016. The Group recognised RMB 11.8 million (NZD$2.7 million) as a contingent consideration, which represented fair value at the date of acquisition. The fair value reflected the Directors view, based on forecasts that the contingent consideration would be paid in full.

Whilst the business earnings are in line with the original expectations, inventory levels have been higher than anticipated. As a result in May 2016 it was agreed with the vendor that the contingent consideration would not be paid and that Methven would waive its right, under the terms of the sale and purchase agreement, to make a claim on the vendor in relation to the higher inventory levels. As a result the fair value of contingent consideration as at 30 June 2016 is nil and the contingent consideration liability previously recognised of NZ$2.7 million has been released to the Income Statement in the other income line.

### 3.8 Equity

#### (a) Share capital

***Recognition and measurement:***

*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.*

| | **Number of shares** | | **Share capital** | |
|---|---|---|---|---|
| | **As at 30 Jun 16** | As at 31 Mar 15 | **As at 30 Jun 16** | As at 31 Mar 15 |
| | **Shares** | Shares | **NZ $000** | NZ $000 |
| Opening balance of ordinary shares issued | **72,773,410** | 66,606,265 | **52,080** | 46,986 |
| Shares issued for Acquisition of Invention Sanitary | **-** | 4,258,765 | **-** | 4,944 |
| Share issued to key management | **-** | 1,450,000 | **-** | - |
| Shares issued to the Chief Executive Officer | **-** | 458,380 | **-** | 150 |
| **Closing balance of ordinary shares issued** | **72,773,410** | 72,773,410 | **52,080** | 52,080 |

All shares on issue are fully paid. All ordinary shares rank equally with one vote attached to each fully paid ordinary share and have equal dividend rights. All shares are non-par value shares.

The shares issued to key management and the CEO are treasury shares as the Company has a beneficial interest in the shares until the vesting conditions are met in relation to the Executive share scheme, or the limited recourse loans are repaid in full in relation to the CEO share scheme. As at 30 June 2016 the Company had 1,908,380 treasury shares on issue (2015: 1,908,380).

### (b) Earnings per share

***Recognition and measurement:***

*Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares including share options and grants.*

| | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| **Basic earnings per share** | | |
| Net profit attributable to shareholders ($000) | **8,594** | 5,690 |
| Weighted average number of ordinary shares on issue | **70,865,030** | 69,814,924 |
| Basic earnings per share (cents) | **12.1** | 8.2 |
| **Diluted earnings per share** | | |
| Net profit attributable to shareholders ($000) | **8,594** | 5,690 |
| Weighted average number of ordinary shares for diluted earnings per share | **70,865,030** | 69,814,924 |
| Diluted earnings per share (cents) | **12.1** | 8.2 |

### (c) Dividends per share

Dividend distribution to the Company shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Directors and notified to the Company's shareholders.

| | **As at 30 Jun 16 Cents per share** | As at 31 Mar 15 Cents per share |
|---|---|---|
| Interim dividend for the period ended 30 June 2016 | **4.0** | - |
| Special dividend | **3.0** | - |
| Final dividend for the period ended 31 March 2015 | **4.0** | - |
| Interim dividend for the period ended 31 March 2015 | **-** | 4.0 |
| Final dividend for the period ended 31 March 2014 | **-** | 4.5 |
| | **11.0** | 8.5 |

The 2014 final dividend paid during 2015 the year was imputed at a rate of 14%. All other dividends paid during the current and prior period were imputed at a rate of 28%.

Supplementary dividends of $127,681 (2015: $52,958) were also provided to shareholders not tax resident in New Zealand, for which the Group received a Foreign Investor Tax Credit entitlement.

# 4. Financial risk management

The Group's activities expose it to a variety of financial risks including market risk, mainly currency risk and interest rate risk, credit risk and liquidity risk.

Methven's financial instruments either expose the Group to risks or are used to manage the risk. These are recognised initially at trade date at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. The financial instruments are classified in the following way:

| Financial Instrument | Classification | Explanation |
|---|---|---|
| Derivatives | Fair value through Profit & Loss | These instruments are used to hedge currency movements and changes to interest rates. |
| Contingent consideration | | This is the present value of the estimated earnout payments the Group expected to make (refer note 3b) |
| Cash and cash equivalents | Loans and receivables and liabilities held at amortised cost. The carrying amount is considered a reasonable approximation of fair value due to their short term nature and the impact of discounting not being significant. | These relate to the normal operating needs of the business and the day-to-day operations. |
| Trade receivables | | |
| Trade creditors | | |
| Interest bearing liabilities (including finance leases) | | |
| Other creditors and accruals | | |

### 4.1 Capital management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they 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 or received from subsidiaries, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to externally imposed capital requirements except in relation to debt covenants. The Group did not breach any debt covenants in the periods presented, refer to Note 3.6.

### 4.2 Market risk

***Recognition and measurement:***

***Derivative financial instruments***

*The Group is party to derivative financial instruments in the normal course of business in order to reduce market risk and hedge exposure to fluctuations in interest rates and foreign exchange rates.*

*Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of risks associated with recognised liabilities and highly probable forecast transactions (cash flow hedges).*

*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. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss.*

***Derivative financial instruments (continued)***

*Amounts accumulated in equity are reclassified to the profit and loss in the periods when the hedged item affects the profit and loss (for instance when the forecast sale or purchase that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.*

*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 the profit and 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 the profit and loss.*

***Fair value of derivative financial instruments***

*All derivative instruments are based on inputs other than quoted prices included within active markets that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).*

*Specific valuation techniques used to value derivatives include:*

- *The fair value of interest rate swaps is calculated as the present value of the estimated future cashflows based on observable yield curves*
- *The fair value of forward exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value*

**(i) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, including the purchase of inventory in US dollars and Euro, translation of subsidiary results in Great Britain pounds, Australian dollars and Chinese Yuan. These exposures are categorised into transactional exposures and translation exposures.

All foreign currency transactions are recognised at the spot rate on the date of transaction and foreign currency balances are revalued at spot rate at period end. Foreign subsidiary assets and liabilities are translated at the closing rate at period end and income and expenses for each item in the income statement and statement of comprehensive income are translated at average exchange rates (unless this average 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 rate on the dates of the transactions).

- Transactional

  The Group has foreign exchange exposure on the purchase of inventory (in USD and EUR), the sale of inventory and intercompany transactions (in AUD, GBP and RMB).

- Translation

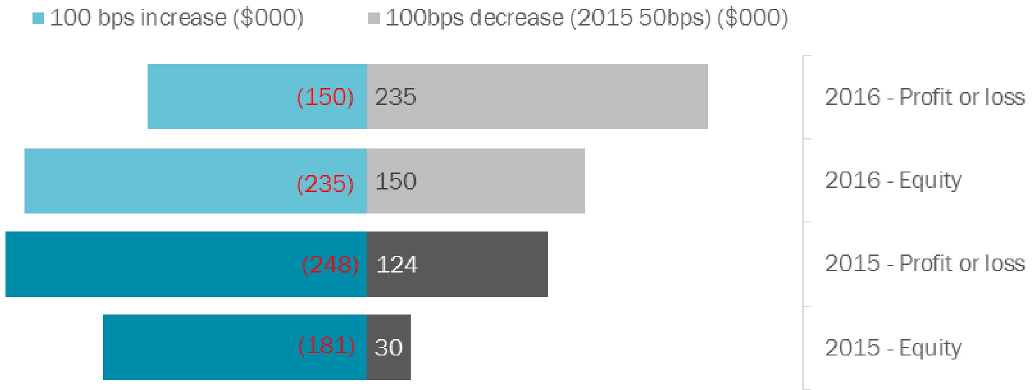
  The Group has foreign exchange exposure when converting subsidiary results from their local currencies (in AUD, GBP and RMB) into NZD for the purposes of consolidating Group results.

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into New Zealand dollars. This includes all foreign exchange translation movements. On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

**(i) Foreign exchange risk (continued)**

**Foreign exchange rate sensitivities**

The sensitivity analysis shows the effect on profit or loss and equity if foreign exchange rates at balance date had been 100 basis points higher or lower with all other variables held constant. In consideration of the increased downside risk in the market compared to the prior year, sensitivities have been increased to 100 basis points.




*Managing the Transactional foreign exchange risk*

The Group's treasury policy is to hedge between 80%-100% of committed cash flows, between 25%-75% of forecasted cash flows falling within 0-6 months and between 0%-50% of forecasted cash flows falling within 6-12 months. The Board may from time to time approve exceptions to this policy.

The following table shows the fair value of the foreign exchange contracts and interest rate swaps held by the Group as derivative financial instruments at balance date:

| NZ $000 | **As at 30 Jun 16** | **As at 31 Mar 15** |
|---|---|---|
| **Foreign exchange contracts** | | |
| Buy USD / Sell NZD | **(406)** | 77 |
| Sell AUD / Buy NZD | **105** | 47 |
| Buy EUR / Sell NZD | **-** | (20) |
| Buy GBP / Sell NZD | **126** | - |
| Buy USD / Sell AUD | **(172)** | 1,079 |
| Buy USD / Sell GBP | **575** | 396 |
| Buy EUR / Sell GBP | **84** | (69) |
| **Interest rate swaps** | | |
| GBP swap | **(35)** | (42) |
| NZD swap | **(130)** | (93) |
| Total derivative financial instruments | **147** | 1,375 |
| *Classified as:* | | |
| Assets | **1,084** | 1,607 |
| Liabilities | **(937)** | (232) |

### (ii) Interest rate risk

The main interest rate risk arises from long term interest bearing liabilities at variable rates denominated in NZD and GBP. Interest rate exposure is managed with the following parameters: fixed interest rate debt to total debt is to be 40% to 80% managed if interest bearing liabilities are less than 18 months and 0% to 60% between 18 and 36 months. Policy authorised hedging instruments such as interest rate swaps are to be used to manage the risk.

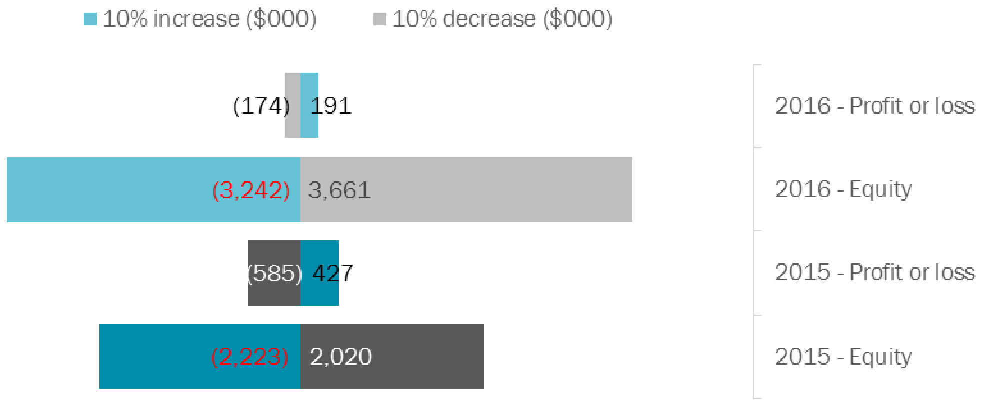
The contracts require settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from re-measuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. Any ineffective portion is recognised in the income statement immediately. There has been no ineffectiveness during the current or prior year.

| | **30 June 2016** | | 31 March 2015 | |
|---|---|---|---|---|
| | **Weighted average interest rate** | **Balance $'000** | Weighted average interest rate | Balance $'000 |
| Bank overdrafts and bank loans | **5.5%** | **23,503** | 5.8% | 24,762 |
| Interest rate swaps (notional principal amount) | **3.3%** | **(9,295)** | 2.2% | (7,164) |

**Interest rate sensitivities**

The sensitivity analysis shows the effect on profit or loss and equity if market interest rates at balance date had been 100 basis points higher or lower with all other variables held constant. In consideration of the increased downside risk in the market compared to the prior year, sensitivities have been increased to 100 basis points.



### 4.3 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Cash and cash equivalents includes cash in hand, cash at bank and deposits held on call with financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of these assets. The Group places its cash and derivative with high quality financial institutions in accordance with Board approved Treasury Policy.

Refer to note 3.1 (receivables) for further detail on customer credit risk.

All cash and cash equivalents and derivative financial assets are held with 'A' rated banks.

### 4.4 Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. At the reporting date the Group had overdraft facilities of NZD 0.2m, AUD 0.25m and GBP 0.05m.

**Maturities of financial liabilities**

The tables below analyse the Group's financial liabilities into relevant maturity groupings. The Group's derivative foreign exchange financial instruments are gross settled and interest rate swaps are net settled. These derivatives are categorised into relevant maturity groupings based on the contractual maturity dates. The amounts disclosed in the tables below are the contractual undiscounted cash flows inclusive of interest payments. The Group's interest rates are reset monthly and as a result the contractual interest payments below have been calculated based on interest rates and debt levels that existed at balance date.

| **As at 30 June 2016**<br>NZ$000 | Less than 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | Total contractual cash flows | Carrying Amount liabilities |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| Interest bearing liabilities | (500) | (519) | (1,209) | (24,596) | (26,824) | (24,362) |
| Contingent consideration | - | - | - | - | - | - |
| Trade creditors | (10,838) | - | - | - | (10,838) | (10,838) |
| Other creditors and accruals | (5,054) | - | - | - | (5,054) | (5,054) |
| **Total non-derivatives** | **(16,392)** | **(519)** | **(1,209)** | **(24,596)** | **(42,716)** | **(40,254)** |
| **Derivatives** | | | | | | |
| Net settled (interest rate swaps) | (71) | (51) | (43) | - | (165) | (165) |
| Gross settled (foreign exchange contracts) | | | | | | |
| - inflow | 27,182 | 14,788 | - | - | 41,970 | 41,970 |
| - (outflow) | (27,202) | (14,456) | - | - | (41,658) | (41,658) |
| **Total derivatives** | **(91)** | **281** | **(43)** | **-** | **147** | **147** |

**As at 31 March 2015**

| NZ$000 | Less than 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | Total contractual cash flows | Carrying Amount liabilities |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| Interest bearing liabilities | (341) | (31) | (24,818) | - | (25,190) | (24,762) |
| Contingent consideration | (1,322) | - | (1,322) | - | (2,644) | (2,540) |
| Trade creditors | (9,350) | - | - | - | (9,350) | (9,350) |
| Other creditors and accruals | (3,771) | - | - | - | (3,771) | (3,771) |
| **Total non-derivatives** | **(14,784)** | **(31)** | **(26,140)** | **-** | **(40,955)** | **(40,423)** |
| **Derivatives** | | | | | | |
| Net settled (interest rate swaps) | (33) | (31) | (64) | (7) | (135) | (135) |
| Gross settled (foreign exchange contracts) | | | | | | |
| - inflow | 22,994 | 7,278 | - | - | 30,272 | 30,272 |
| - (outflow) | (22,522) | (6,240) | - | - | (28,762) | (28,762) |
| **Total derivatives** | **439** | **1,007** | **(64)** | **(7)** | **1,375** | **1,375** |

# 5. Other information

### 5.1 Related party transactions

The Group had transactions between operating segments as described in note 2.1(c), transactions with key management and transactions with other parties as described below.

**Transactions with key management personnel**
The key management personnel includes the Chief Executive Officer and those employees who report directly to the CEO.

*Compensation*

| NZ $000 | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|
| Salaries and other short term employee benefits | **3,035** | 1,840 |
| Termination benefits | **169** | - |
| Employee share option expenses | **111** | 86 |
| Directors | **314** | 249 |
| | **3,629** | 2,175 |

**Share based payments and Loans to key management**

***Recognition and measurement:***

The fair value of share schemes, under which the Company receives services from directors and employees as consideration for equity instruments of the Company, is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, including any equity market performance conditions and excluding the impact of any service and non-market performance vesting conditions. Non-market performance and service conditions are included in assumptions about the number of options 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.

The Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital.

A share based payments reserve is used to recognise the fair value of options issued and vested but not exercised. Where vesting conditions exist the fair value of the share rights granted are spread over the vesting period, otherwise the fair value is expensed in the period the options were granted.

Total expenses recognised from the share based payment transactions during the period was $111,000 (2015: $86,000).

**Executive Share Scheme**

In October 2014 Methven issued 1,450,000 treasury shares to selected senior executives at market price. Methven provided the participants with a loan equal to the aggregate issue price of the shares. The loans bear interest at IRD determined FBT rates and are repayable at the end of the 4 year vesting period (previously 3 year vesting period).

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 participants will be eligible to be paid a cash bonus at the end of the vesting period in June 2018 based on June 2018 NPAT targets as follows:

| NPAT year ending 30 June 2018 ($NZ) | % of bonus payable |
|---|---|
| $10.5m - $11.0 m | 25% |
| $11.5 – $12.0m | 50% |
| $12.5 - $13.0m | 100% |

These targets are for the purposes of the Executive Share Scheme only and should NOT be construed as guidance. The targets are measured before accounting for the bonus.

If the NPAT targets are not met by the end of the vesting period the participants have the option to repay the loan and take full ownership of the shares or exit the arrangement.

The fair value of this scheme includes an assessment of the probability that the NPAT targets will be achieved. As this probability changes through the vesting period the amount expensed will increase in line with the probability, subject to the maximum amount payable under the scheme.

200,000 treasury shares were forfeited and no share options vested during the period. The Board also resolved to establish three further employee share schemes as detailed further in note 5.4.

**Transactions with other parties**

Payments of RMB 2,429,000 (NZ$560,000) (2015: $522,000) were made to related parties of Hui Zhuang, a former Director of Heshan Methven Bathroom Fittings Co., Ltd and former owner of Invention Sanitary Ltd. The payments made in the current period related to the rent of premises in Heshan.

All transactions between the Group and related parties were in the normal course of business and provided on commercial terms.

### 5.2 Commitments

#### (i) Operating leases

***Recognition and measurement:***

*Leases where the lessor effectively retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives from the lessor) are charged to the income statement on a straight line basis over the period of the lease.*

The Group has operating leases for premises, vehicles, plant and equipment. There are no options to purchase in respect of these leases and there are no sub-leases.

The future aggregate minimum lease payments under the non-cancellable operating leases are as follows:

| NZ $000 | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| Within one year | **2,307** | 1,610 |
| One to two years | **1,947** | 1,436 |
| Two to five years | **3,815** | 4,555 |
| Later than five years | **5,578** | 5,481 |
| | **13,647** | 13,082 |

### (ii) Finance leases

***Recognition and measurement:***
*Finance leases, which transfer all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.*

*Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.*

The Group has finance leases on machinery and have been classified under current and non-current interest bearing liabilities on the consolidated balance sheet.

| NZ $000 | **As at 30 Jun 16** | As at 31 Mar 15 |
|---|---|---|
| Within one year | **210** | - |
| Later than One Year but not later than five years | **842** | - |
| Later than five years | **-** | - |
| Minimum Lease Payments | **1,052** | - |
| Future Finance Charges | **(193)** | - |
| Recognised as a liability | **859** | - |

### (iii) Capital commitments

As at 30 June 2016 Group had $217,000 capital commitments (2015:$Nil).

## 5.3 Contingencies

The Group had no material contingent liabilities or assets as at 30 June 2016 (2015: $Nil).

## 5.4 Events occurring after the reporting period

The following events have occurred subsequent to 30 June 2016:

The Board of Directors resolved to pay a final dividend of 4.5 cents per share or $3.3 million. The dividend will be paid on 30 September 2016 to all shareholders on the Company’s register at the close of business on 23 September 2016.

The Board resolved to establish further employee share schemes for implementation in the new financial year. These include an Employee Share Option Plan and a Discounted Share Purchase Plan for staff looking to invest more. The schemes are intended to align and link employees as owners of the business and focus action on growing sustained shareholder value.

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

## 5.5 Other disclosures

### (a) Reconciliation of profit after income tax to net cash inflow from operating activities

| NZ $000 | **15 mths ended 30 Jun 16** | 12 mths ended 31 Mar 15 |
|---|---|---|
| Profit for the period | **8,594** | 5,690 |
| Depreciation | **2,878** | 2,011 |
| Amortisation of intangible assets | **1,832** | 1,203 |
| Share options expensed | **111** | 86 |
| Net loss on disposal of assets | **133** | 10 |
| Contingent consideration release | **(2,729)** | - |
| Impact of changes in working capital items (net of acquisitions) | | |
| Trade receivables | **(4,335)** | 215 |
| Inventories | **3,758** | 789 |
| Prepayments and other assets | **1,560** | (1,667) |
| Trade creditors | **1,726** | (2,283) |
| Employee accruals | **825** | 473 |
| Provisions, other creditors and accruals | **2,846** | (883) |
| Tax receivable | **(1,965)** | 1,254 |
| Deferred income tax | **(504)** | (641) |
| **Net cash inflow from operating activities** | **14,730** | 6,257 |

### (b) Investment in subsidiaries

All subsidiaries have a balance date of 30 June. The consolidated financial statements incorporate the assets, liabilities and results of Methven and its subsidiaries in accordance with the accounting policy described in note 1:

| **Name of entity** | **Country of Incorporation** | **Activities** | **Equity holding 2016 %** | **Equity holding 2015 %** |
|---|---|---|---|---|
| Methven Limited | NZ | Supply and Manufacture of shower and tapware | Parent | Parent |
| Plumbing Supplies (NZ) Limited | NZ | Procurement and distribution | 100 | 100 |
| Methven Australia Pty Limited | Australia | Shower and tapware supplier | 100 | 100 |
| Methven Hotel Solutions Pty Limited | Australia | Non-trading | 100 | 100 |
| Methven UK Limited | UK | Shower and tapware supplier | 100 | 100 |
| Deva Tap Company Limited | UK | Dormant | 100 | 100 |
| Windsor Water Fittings Limited | UK | Liquidated | N/A | 100 |
| Howard Bird & Company Limited | UK | Dormant | 100 | 100 |
| Methven (Xiamen) Trading Co Limited | China | Non-trading | 100 | 100 |
| Methven USA Inc. | USA | Non-trading | 100 | 100 |
| Heshan Methven Bathroom Fitting Co. Limited | China | Supply and Manufacture of tapware | 100 | 100 |

Windsor Water Fittings Limited has been liquidated during the period.

### (c) Accounting policies not disclosed elsewhere

#### Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave are recognised in the provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

#### Current liabilities - Provisions

Provision is made for the estimated warranty claims in respect of products sold which are still under warranty at balance date. The majority of these claims are expected to be settled in the next financial year but this may be extended into the following year if claims are made late in the warranty period and are subject to confirmation by suppliers that component parts are defective. Management estimates the provision based on historical warranty claim information and any recent trends that may suggest future claims could differ from historical amounts.

# *Independent auditor's report*

To the shareholders of Methven Limited

## *Our opinion*

In our opinion the consolidated financial statements of Methven Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2016, its financial performance and its cash flows for the period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

### What we have audited

Methven Limited's consolidated financial statements comprise:

- the statement of financial position as at 30 June 2016;
- the income statement for the period then ended;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended;
- the cash flow statement for the period then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

## *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of review engagements and liquidation services. The provision of these other services has not impaired our independence as auditors of the Group.

## *Information other than the financial statements and auditor's report*

The Directors are responsible for the annual report. The other information included in the annual report is expected to be made available to us after the date of this auditors report.

Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements 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.

## *Responsibilities of the Directors for the consolidated financial statements*

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability 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 consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are 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 ISAs NZ and ISAs 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 these consolidated]financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx

## *Who we report to*

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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The engagement partner on the audit resulting in this independent auditor's report is Jonathan Skilton.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 August 2016

Auckland