

**Results for announcement to the market**

				\$'000
<b>Sales revenue</b>	up	5.6%	to	<b>222,186</b>
<b>Profit before tax excluding significant items</b>	up	26.2%	to	<b>23,955</b>
<b>Profit after tax excluding significant items</b>	up	19.1%	to	<b>16,336</b>
<b>Profit before tax excluding significant items and the impact of new AASB16 Leases accounting standard</b>	up	20.4%	to	<b>22,846</b>
<b>Profit after tax excluding significant items and the impact of new AASB16 Leases accounting standard</b>	up	13.4%	to	<b>15,560</b>
<b>Profit before tax<sup>1</sup></b>	down	30.1%	To	<b>13,262</b>
<b>Profit after tax<sup>1</sup></b>	down	55.8%	to	<b>6,062</b>
<b>Profit after tax attributable to members<sup>1</sup></b>	down	55.8%	to	<b>6,062</b>

<sup>1</sup>Including significant items in the current financial year results (refer to Note 3). There were no significant items in the prior financial year.

<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<b>Final dividend</b>	7.0¢	7.0¢
<b>Interim ordinary dividend</b>	4.0¢	4.0¢

**Payment date** for final dividend

**24 September 2020**

**Record date** for determining entitlements to the dividend

**7 September 2020**

***McPHERSON'S LIMITED AND CONTROLLED ENTITIES***

**A.C.N. 004 068 419**

**ANNUAL REPORT**

**YEAR ENDED 30 JUNE 2020**

The Board of Directors presents its report on the consolidated entity (referred to hereafter as McPherson's or the Group) consisting of McPherson's Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020.

**(a) Directors**

The following persons were Directors of McPherson's Limited from the beginning of the financial year to the date of this report except as indicated:

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

**(b) Principal activities**

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

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

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

**(c) Dividends**

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

	<b>\$'000</b>
Interim ordinary dividend of 4.0 cents per fully paid ordinary share paid on 19 March 2020 (fully franked)	4,274
Final ordinary dividend of 7.0 cents per fully paid ordinary share declared by the Directors (fully franked) and payable on 24 September 2020 but not recognised as a liability at year end	7,509
<b>Total dividends in respect of the financial year</b>	<b>11,783</b>

The 2019 final ordinary dividend of \$6,387,000 (6.0 cents per fully paid ordinary share) was paid on 26 September 2019.

**(d) Consolidated results**

The consolidated profit after tax of the Group for the financial year ended 30 June 2020 was \$6,062,000 (2019: \$13,721,000). The current year profit after tax is inclusive of significant items amounting to a net expense after tax of \$10,274,000 (2019: nil). The consolidated profit after tax for the year ended 30 June 2020, excluding significant non-recurring items, was \$16,336,000. Refer to Note 3 Significant Items for further information.

## **(e) Review of operations**

### *Results for the year*

McPherson's has reported sales of \$222.2 million for the year ended 30 June 2020, a 6% increase on the previous year's \$210.3 million. The Group reported an 11% increase in total sales revenue from continuing operations (excluding two discontinued distribution relationships) to \$222.1 million (FY19: \$199.3 million). The strong result was primarily due to 75% growth in Dr. LeWinn's sales revenue on prior corresponding period (pcp) through our strategic and exclusive China facing partner ABM and strong domestic growth, 4% growth in sales of Multix products and 3% growth in sales of Manicare products.

Underlying EBIT (earnings before interest and tax) was \$23.5 million, 18% above FY19 (\$19.9 million), excluding the following significant items in FY20: (i) Impairment of A'kin brand (\$7.3) million; (ii) Impairment of Moosehead brand (\$1.2) million; (iii) Impairment of investment in the Kotia joint venture (\$2.2) million and (iv) favourable impact of AASB16 Leases \$1.6 million.

Underlying PBT (profit before tax) was \$22.8 million, 20% above FY19 (\$19.0 million), excluding the same significant items (i), (ii) and (iii) as noted above in relation to underlying EBIT and (iv) favourable impact of AASB16 Leases \$1.1 million. Underlying earnings per share (EPS), excluding significant items, increased 12% from 13.0 cents in FY19 to 14.6 cents in FY20.

Inclusive of the aforementioned significant items, McPherson's reported a 56% decrease in statutory profit after tax of \$6.1 million (FY19: \$13.7 million).

McPherson's achieved strong underlying cash conversion of 103% in FY20 (FY19: 117%). Net debt remains low at \$9.2 million (FY19: \$7.5 million), despite key strategic investments in the Aware Group (\$3.0 million) and the Kotia, Soulful and Sugarbaby joint ventures (\$2.7 million in total) in FY20. The Group's leverage ratio (net bank debt excluding leases / EBITDA) is low at 0.4 times. The company's gearing ratio (net bank debt excluding leases / total funds employed) was 9.3% at 30 June 2020 (FY19: 7.2%).

McPherson's Directors declared a total ordinary dividend of 11.0 cents per share (cps) fully franked for the full year, 10% above the FY19 total ordinary dividend of 10.0 cents per share fully franked, noting that an interim, fully franked special dividend of 2.0 cps was also paid in March 2019. The ordinary dividend payout ratio for the year ended 30 June 2020 was 72% of underlying EPS.

McPherson's refers to its owned brands Dr. LeWinn's, Manicare, A'kin, Swisspers, Lady Jayne and Multix as its "core six brands". The majority of these brands are market leaders in their categories. In FY20, McPherson's recorded 18% growth in sales revenue from its core six brands.

### *Strategic partnerships*

The progression in growth of Dr. LeWinn's sales to ABM has been remarkable, with sales of \$0.5 million in FY17, \$3.1m in FY18, \$16.0 million in FY19 and now \$37.2 million in FY20. ABM has now qualified for 51% ownership of the Dr. LeWinn's Intellectual Property registered in China, exceeding the requisite sales threshold outlined in our Joint Venture agreement of \$35 million in any 12-month period prior to 30 June 2022.

ABM's commercial partnership with McPherson's continued to go from strength to strength in FY20, driven by new product innovations. Hero products in FY20 included Triple Action Day Defence, Collagen Surge Plumping Gel and the Ageless Trinity Pack.

**(e) Review of operations (continued)**

*Continued investment in Innovation & Sustainability*

McPherson's has continued to invest in its research and development capability with an increase in headcount of 33% in FY20 and over 200 new products developed to support the business' brands, with an emphasis on the rapid growth skincare ranges. Internally developed products have generated incremental contribution of approximately \$20 million over the last 4 years.

A sustainability agenda has been established and is gaining momentum with elevated, broad focus on all elements of sustainability across the Group, including interactions with key stakeholders.

Having a capable and sustainable supplier base is fundamental to the success of the McPherson's business model. The strength of the Group's relationships with its suppliers has come to the fore through the challenges of the COVID-19 period, with the supply chain responding very well to the requirements of our customers through this period of unpredictable demand. Having successfully transferred over 50 product ranges from other suppliers and produced its one millionth product for McPherson's in May 2020, the Aware Group is now McPherson's key supplier of Dr. LeWinn's products, with approximately 50% of all Dr. LeWinn's product forecast to be sourced from Aware in FY21.

In recognition of the importance of this relationship, McPherson's converted \$3.0 million in convertible notes to equity in Aware in October 2019 and made an additional \$3.0 million in equity investment in Aware in October 2019. McPherson's now own's 10.7% of the Aware Group.

*New Business Development*

Over the last twelve months, the Group's New Business Development Team has applied rigorous criteria to assess three significant acquisition opportunities and over twenty start up merger and acquisition opportunities. After careful consideration, none of these were progressed for a variety of reasons, including unrealistic vendor valuation expectations, unacceptable risk profiles and sub-optimal strategic alignment. Consequently, the Group is now well placed with a very strong balance sheet to execute appropriate new merger and acquisition opportunities in the post COVID-19 environment. The Group will continue to be disciplined in its assessment of merger and acquisition opportunities as they arise.

*Joint Ventures*

While the FY20 underlying loss of \$1.9 million from the three incubation joint ventures, Kotia, Soulful and Sugar Baby was below expectation, the Group will continue to progress new product launches with key retail partners in FY21, with a substantial improvement in financial outcomes projected. The Kotia deer milk product has received very positive consumer feedback, however the Group's investment in the Kotia Joint Venture (\$2.1 million) has also been fully impaired in FY20, as market traction has been difficult to realise in the current challenging retail environment. We are fully committed to these innovative and differentiated brands for the future.

*Operations Review*

The Group is currently undertaking a broad based review of its operations, including the efficiency and effectiveness of its supply chain and distribution network, which has known significant excess capacity, and the structure of its sales function. It is anticipated that material cost reductions, in the order of \$1.0 million to \$2.0 million per annum from FY22 will flow from these reviews.

*COVID-19 Update*

The proactive actions taken by the Company since the COVID-19 pandemic was declared were promptly established to safeguard all our employees in Asia Pacific. The ongoing well-being and support of McPherson's employees as they work in challenging circumstances is the highest priority. McPherson's supply chain, managed by the Group's teams in Hong Kong and Sydney, has operated without significant disruption over the COVID-19 period, with Management striving to increase safety stock levels as a precaution to protect against any future, additional waves of pandemic disruption. Independent manufacturing facility Aware Group continues to positively support McPherson's to ensure sustainable product supply.

The recent second wave of COVID-19 restrictions imposed in Melbourne has not significantly impacted McPherson's, with key Melbourne based suppliers remaining unaffected and sales orders from Victorian based retailers relatively stable. Management will continue to monitor the impact of COVID-19 closely.

### **(e) Review of operations (continued)**

#### *Refinancing of Group Debt Facility*

The Group recently established a three-year debt facility with the support of its existing lenders, Westpac and National Australia Bank. The \$47.5 million facility, expiring 30 June 2023, comprises a \$35.0 million revolving working capital facility, \$10.0 million acquisition facility and \$2.5 million ancillary document facility. The Group has comfortable headroom within its covenant structure.

#### *Geographical segmentation of sales*

##### *Australia*

McPherson's Australian operations' sales revenue was \$207.4 million an increase of 7% on FY19 (\$193.2 million). Sales from two now terminated Agency brands reduced by \$10.0 million in FY20, consequently the increase in sales excluding these discontinued agencies was 13%. This was driven by a 75% increase in Dr. LeWinn's, a 4% increase in Multix and a 3% increase in Manicare sales.

##### *New Zealand*

McPherson's New Zealand business offers a similar range of products to those sold in the Australian market and experienced a decline in sales revenue from A\$9.6 million in FY19 to A\$9.0 million in FY20 due to a A\$1.3 million reduction in agency sales, largely due to the discontinuation of the Karen Murrell agency. Sales of owned brand products increased by 9% in FY20, largely due to a 77% increase in sales of Dr. LeWinn's products.

##### *Asia*

From its Asia sales headquarters in Singapore, McPherson's markets an extensive range of Health, Wellness & Beauty products throughout the Asian region. Brands include the key Group-owned brands of Manicare, A'kin, Lady Jayne and Swisspers complemented by a number of licensed brands. Sales reduced by 22% to A\$5.8 million in FY20, due to a 28% decrease in owned brand sales and a 74% decrease in private label sales due to the loss of the Watson's Footcare supply contract. The Group also has a sourcing operation located in Hong Kong that manages many aspects of product procurement and quality assurance.

#### *Corporate strategy*

In FY20, McPherson's continued the execution of its 10 strategic imperatives, being:

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

Execution of these strategic imperatives in FY20 provides a solid foundation for growth in FY21.

#### *Risk management and compliance*

The Board has ultimate responsibility for the oversight of risk management and compliance across the Group.

Risk is an integral part of the Group's decision-making process and all risks and opportunities are adequately and appropriately assessed to ensure that significant risk exposures are minimised. The Group's risk and compliance frameworks ensure that all risks and compliance obligations are properly identified and managed, that insurances are adequate and that processes are in place to ensure compliance with regulatory requirements.

The Managing Director is accountable to the Board for the development and management of the Group's risk and compliance frameworks and is supported by the Chief Financial Officer in terms of adopting appropriate risk management and compliance processes, including regular and transparent reporting to the Audit, Risk Management and Compliance Committee of the Board. The Senior Leadership Team of the Group is actively involved in the review, isolation and mitigation of key risks and each senior manager is responsible for the management of risk and compliance with relevant laws and regulations.

**(e) Review of operations (continued)**

*Risk management and compliance (continued)*

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

▶ **Reduction in consumer demand**

Given McPherson's reliance on consumer spending, adverse changes to the general economic landscape in Australasia or consumer sentiment for the Group's products could impact its financial results. This risk is addressed through keeping abreast of economic and consumer data research, innovative product development and brand building.

▶ **Workplace health and safety**

Given the physical nature of the Group's operations, workplace health and safety are of paramount importance. Significant effort and attention have been placed on internal policies and processes to ensure that employees are aware of their legal obligations and the productivity benefits that come from working safely. A tone of safety first is set at the top of the organisation and is reinforced through commitment of resources, including a dedicated workplace health and safety officer.

▶ **The impact of COVID-19 and future pandemics**

The potential for significant disruption to the Group caused by a global pandemic has been illustrated by the current COVID-19 outbreak. While the potential impact on workplace health and safety, customer demand, continuity of supply and availability of capital has been anticipated and well managed by the Group, the potential for future disruption from COVID-19 or a future new pandemic is self-evident.

▶ **Foreign currency and interest rate fluctuation**

The Group sources the majority of its inventory in currencies other than Australian dollars, with the US dollar the predominant sourcing currency. Consequently, significant fluctuations in the AUD / USD exchange rate can materially impact the Group's results. The Board has established, and regularly reviews the Group's foreign currency hedging policy with the objective of mitigating short to medium term foreign currency risk.

Consistent with the policy, the Group continues to operate a comprehensive foreign exchange hedging program, which mitigates the impact of Australian dollar and US dollar movements. The Group's foreign exchange hedging and the instruments used for foreign exchange hedging remain unchanged, being a combination of options and foreign exchange contracts on a rolling basis.

In addition to this, the Group entered into an interest rate swap contract maturing in June 2023 to partially restrict the Group's interest rate exposure under its new three-year facility of \$47.5 million expiring in June 2023.

▶ **Raw material price fluctuation**

A significant proportion of the Group's inventory costs are influenced by movements in the price of commodities such as resin and aluminium. Such commodity prices are usually denominated in US dollars and historically are correlated with movements in the AUD / USD exchange rate. This correlation provides a degree of natural hedge against the profit impact of AUD / USD currency movements. Consequently, separate risk mitigation measures are not utilised to manage this risk.

▶ **Loss of a major customer or deranging of a major product range**

A significant proportion of the Group's sales is related to a significant export customer and two domestic customers in the grocery channel. The deletion of a material product range by these customers could materially reduce McPherson's profitability. In order to mitigate this risk, the Group strives to provide superior customer service, product innovation and competitive pricing. It is also pursuing a strategy of channel and customer diversification, as demonstrated by the recent joint venture activity in Health, Wellness and Beauty.

▶ **Exposure to the China market**

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

**(e) Review of operations (continued)**

*Risk management and compliance (continued)*

▶ **Key supplier redundancy**

The Group has significant reliance on key suppliers of products. Many such suppliers are based in China, with key skincare suppliers predominantly based in Australia. Alternate suppliers have been isolated for all key suppliers. The potential for political instability to impact the Hong Kong sourcing team is being closely monitored. The capture of important supplier information on the Group's ERP system has improved the ability of the Group to adapt to any future disruption to the Hong Kong sourcing team. The continued transition of significant Dr. LeWinn's formulations and production to Aware Environmental will materially reduce the risk of disrupted skincare production and access to formulations.

▶ **Investment of capital**

Given the strength of the Group's balance sheet and the stated objective of deploying capital to merger and acquisition activity, the risk element is the deployment of capital to investments that do not present acceptable risk and reward outcomes for the Group's shareholders. The following measures are being taken to manage this risk:

- Restriction of the number of opportunities under review to ensure appropriate focus and resourcing;
- Careful assessment of risk and return metrics associated with opportunities;
- In the case of recent joint ventures, de-risking of return on investment outcomes by determining most consideration with reference to actual EBIT outcomes; and
- Engagement of external assistance, such as due diligence expertise where deemed necessary for smaller investments and mandatory for investments in excess of \$10 million.

▶ **Deficiency in product quality**

As a supplier of branded consumer products to retailers, the Group has an exposure to product faults which could lead to liability claims and product recalls. To control this risk, the Group adopts stringent quality control and supplier verification procedures. In addition, it holds adequate product and public liability insurance and product recall insurance.

▶ **Compliance with debt facility undertakings**

A portion of the Group's capital requirement is in the form of debt facilities supplied by financial institutions that require the Group to comply with various undertakings, including specific financial ratios or covenants, in order for the Group to continue to access facilities. The Group seeks to adopt a debt structure that in both quantum and terms has sufficient capacity to withstand a short term decline in earnings or assets that may impact its ability to meet its various debt facility undertakings.

▶ **Cyber security**

The Group places significant reliance on its Information Technology (IT) systems to transact with customers and connect with consumers. The inability to utilise or access our IT systems through a successful denial of service, ransomware or other form of attack could materially impact the Group's ability to transact and hence affect its earnings. The Group uses firewall monitoring software and anti-virus software to block potential cyber threats. Additionally, it has a network monitoring and alert tool that is designed to detect and signal unusual network behaviour. Ongoing external review and input are implemented to ensure the effectiveness of 'cyber' controls to meet ever evolving threats of this nature, including business continuity plans and disaster recovery testing.

▶ **Talent management**

The loss of key management talent and potential underutilisation of key management talent represent a key risk to the business that is mitigated by Human Resources establishing talent development plans, well targeted incentive programs and succession plans.

▶ **Regulatory compliance**

The general risk of compliance with changes in Australian Consumer Law and product standards, with related implications for supplier and inventory management, as well as penalties for non-conformance, is managed by the employment of appropriately knowledgeable employees accessing regular updates on changes in standards. Additionally, regular staff training is conducted by external legal experts in Australian Consumer Law.

**(f) Significant changes in the state of affairs**

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

**(g) Events subsequent to balance date**

The recent second wave of COVID-19 restrictions imposed in Victoria and New Zealand has not significantly impacted McPherson's, with key Melbourne based suppliers remaining unaffected and sales orders from Victorian and New Zealand based retailers remaining relatively stable.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2020 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

**(h) Likely developments and expected results of operations**

In the opinion of the Directors, it would prejudice the interests of the Group to include additional information, except as noted above, and as reported elsewhere in the Directors' Report and the financial statements, which relates to likely developments in the operations of the Group and the expected results of these operations in financial periods subsequent to 30 June 2020.

**(i) Information on Directors**

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

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

Mr. Cubbin is the Chairman of the McPherson's Limited Board. He was appointed an Independent Non-Executive Director of the Company on 28 September 2010 and was appointed Chairman of McPherson's Limited on 1 July 2015.

Mr. Cubbin was a senior executive with Consolidated Press Holdings Limited (CPH) from 1990 until September 2005, including Chief Financial Officer for 13 years. Prior to joining CPH, Mr. Cubbin held senior finance positions with a number of major companies, including Capita Financial Group and Ford Motor Company. Mr. Cubbin has over 20 years experience as a Director and Audit Committee member of public companies in Australia and the United States.

**Special responsibilities**

Chairman of the Board  
Member of the Nomination and Remuneration Committee  
Member of the Audit, Risk Management and Compliance Committee

**Other current Directorships in ASX listed companies**

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

**Former Directorships in ASX listed companies in last three years**

Director of Challenger Limited

**Interests in shares and performance rights**

270,000 ordinary shares in McPherson's Limited  
No performance rights held

**(i) Information on Directors (continued)**

**LAURENCE MCALLISTER – Managing Director and Chief Executive Officer**

**Experience and expertise**

Mr. McAllister was appointed Managing Director and Chief Executive Officer of McPherson's Limited on 21 November 2016.

Mr. McAllister is an experienced international senior executive with strong consumer marketing and dynamic commercial experience. Prior to this role, Mr. McAllister worked for over 23 years with the Coca-Cola Company, managing New Product Development, M&A, Innovation and the Research and Development function across Europe, Eurasia and the Middle East. Mr. McAllister was also the President of Nordics and the Chief Commercial & Marketing Officer for Japan for the Coca-Cola Company. Throughout this tenure, Mr. McAllister represented the Coca-Cola Company on Boards in Germany, Sweden, Norway, Denmark and Finland.

More recently at Sanofi, Mr. McAllister was the Managing Director of the ANZ Affiliate, responsible for six business units with a turnover of \$1.0 billion and \$0.5 billion in profit before tax. In addition to this, Mr. McAllister was on the Board of Medicines Australia for 2 years representing the \$18 billion Pharmaceutical Industry and led a significant turnaround of Sanofi's Consumer Health Care business in Australia and New Zealand.

**Special responsibilities**

Managing Director and Chief Executive Officer

**Other current Directorships in ASX listed companies**

Non-Executive Director of Medlab Clinical

**Former Directorships in ASX listed companies in last three years**

None

**Interests in shares and performance rights**

Nil ordinary shares in McPherson's Limited  
2,541,000 performance rights

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

**Expertise and experience**

Mr. Peck was appointed an Independent Non-Executive director of McPherson's Limited on 14 December 2017. With effect from 20 February 2018, Mr. Peck was appointed a member and Chairman of the Board's Audit, Risk Management and Compliance Committee, and a member of the Board's Nomination and Remuneration Committee.

Mr. Peck has more than 27 years of branded consumer goods experience both domestically and internationally, including leading the finance and supply chain functions in both large and mid-sized FMCG (fast moving consumer goods) organisations. He has a strong record of delivering improved performance outcomes across varied functions, business sectors and geographies.

Previously the CEO of Sunny Ridge Farms and the Chief Financial Officer of Carlton & United Breweries and the Group Managing Director of Supply for CUB with the Fosters Group. Mr. Peck has also held senior general management roles in the food industry with McCormick & Co, where he was responsible for the industrial products business in Australia, and also Chief Financial Officer for the Asia Pacific region with responsibility for operations in China, Singapore and joint ventures throughout Asia.

Mr. Peck holds a Bachelor of Business and is a Chartered Accountant.

**Special responsibilities**

Chairman of the Audit, Risk Management and Compliance Committee  
Member of the Nomination and Remuneration Committee

**Other current Directorships in ASX listed companies**

None

**Former Directorships in ASX listed companies in last three years**

None

**Interests in shares and performance rights**

14,400 ordinary shares in McPherson's Limited  
No performance rights held

**(i) Information on Directors (continued)**

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

**Expertise and experience**

Ms. McKellar was appointed an Independent Non-Executive Director of McPherson's Limited on 23 February 2015. With effect from 24 March 2015, Ms. McKellar was appointed a member of the Board's Nomination and Remuneration Committee, and was appointed Chairman of that committee on 27 April 2015. She was also appointed a member of the Board's Audit, Risk Management and Compliance Committee on 20 February 2018.

Ms. McKellar is an experienced international senior executive with extensive customer-focused, brand, marketing and digital experience across a number of high-profile, global brands.

Ms. McKellar commenced her career at Unilever in London and her subsequent roles have included global CEO of Stila Corporation, Managing Director of Elizabeth Arden Australia, Founding CEO of Excite.com Asia Pacific, Director of Sales and Marketing for Microsoft (MSN), and Founding Director of Ninemsn.

Ms. McKellar holds a Master of Arts (Hons) from the University of Aberdeen and is a Graduate of the Australian Institute of Company Directors.

**Special responsibilities**

Chairman of the Nomination and Remuneration Committee  
Member of the Audit, Risk Management and Compliance Committee

**Other current Directorships in ASX listed companies**

Director of GWA Group, Freedom Foods and NRMA.

**Former Directorships in ASX listed companies in last three years**

Director of Automotive Holdings Group

**Interests in shares and performance rights**

6,357 ordinary shares in McPherson's Limited  
No performance rights held

**GEOFFREY R. PEARCE – Non-Independent Non-Executive Director**

**Expertise and experience**

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

Mr. Pearce has more than 40 years of experience in the pharmaceutical, cosmetic and personal care industries. He has extensive experience in pharmaceutical and cosmetic manufacturing as well as raw material sourcing and product distribution, having established, operated and grown a number of personal care businesses in these industries.

Mr. Pearce is the Chairman of Aware Environmental Ltd, a key supplier of McPherson's Limited.

Given the increasing importance and materiality of the Aware supplier relationship, the Board does not consider Mr. Pearce to be an independent Director.

**Special responsibilities**

None

**Other current Directorships in ASX listed companies**

Non-Executive Director of Cann Group Limited

**Former Directorships in ASX listed companies in last three years**

Non-Executive Director and Chairman of Probiotec Limited  
Executive Director of BWX Limited

**Interests in shares and performance rights**

695,939 ordinary shares in McPherson's Limited  
No performance rights held

**(i) Information on Directors (continued)**

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

**Expertise and experience**

Ms. Mew was appointed an Independent Non-Executive Director of McPherson's Limited on 24 July 2018.

Ms. Mew has more than 30 years of leadership and executive management experience in Australasia across a diverse range of functions within the biopharmaceutical and health services sectors. Her experience includes product manufacturing, quality systems, logistics, sales and marketing, as well as research and development. Ms. Mew is also familiar with the regulatory environment that governs the healthcare market. In addition to these technical and operational activities, Ms. Mew has been involved in corporate acquisitions and divestments as well as the strategic planning process.

Ms. Mew has recently held the positions of Chief Operating Officer and then Chief Executive Officer of Genetic Technologies Limited, an ASX and NASDAQ listed leading edge genetic testing services business.

Ms. Mew holds a Bachelor of Science and a Master of Science (Microbiology), has undertaken the Executive Development Programme at Melbourne Business School and is a Graduate of the Australian Institute of Company Directors.

**Special responsibilities**

None

**Other current Directorships in ASX listed companies**

None

**Former Directorships in ASX listed companies in last three years**

None

**Interests in shares and performance rights**

12,000 ordinary shares in McPherson's Limited

No performance rights held

**Meeting of Directors**

The number of Board, Audit, Risk Management and Compliance Committee, and Nomination and Remuneration Committee meetings held during the year ended 30 June 2020, and the number of meetings attended during that period by each Director, are set out below:

Director	Board Meetings		Audit, Risk Management and Compliance Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Graham A. Cubbin	10	10	4	4	4	4
Laurence McAllister	10	10	n/a	n/a	n/a	n/a
Jane M. McKellar	10	10	4	4	4	4
Grant W. Peck	10	10	4	4	4	4
Geoffrey R. Pearce	10	9	n/a	n/a	n/a	n/a
Alison J. Mew	10	10	n/a	n/a	n/a	n/a

**(j) Company Secretaries**

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

**Expertise and experience**

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

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

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

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

**Expertise and experience**

In May 2010, Mr. Witheridge was appointed the Chief Financial Officer of McPherson's Consumer Products Pty Ltd. Mr. Witheridge was appointed Chief Financial Officer and Joint Company Secretary of McPherson's Limited on 1 December 2011.

Mr. Witheridge holds a Bachelor of Commerce and is a Chartered Accountant.

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

## (k) Remuneration Report

### *Letter from the Chairman of the Nomination and Remuneration Committee*

Dear Shareholders,

The Board is pleased to present McPherson's Remuneration Report for the year ended 30 June 2020. Our Remuneration Report provides shareholders with a clear and transparent explanation of how we aligned our remuneration policies and outcomes with business performance, reflecting principles which require remuneration to be market competitive, performance based and equitable, and aligned with shareholders' returns.

#### *2020 remuneration structure*

Oversight of executive remuneration is a fundamental responsibility of the Board. The Board, through its Nomination and Remuneration Committee, regularly reviews and tests McPherson's remuneration approach to ensure that it remains strongly aligned with shareholder interests, reflects current industry best practice, is underpinned by robust risk management, and attracts and retains the best talent.

#### *2020 remuneration outcomes*

Application of our remuneration framework has ensured that remuneration outcomes for key management personnel (KMP) and other senior executives in 2020 were strongly aligned with shareholder interests.

One fundamental principle is the link between the realisation of long term incentives (LTI), total shareholder returns (TSR) and earnings per share (EPS). The execution of the Group's strategy by KMP resulted in an annual increase of 24% in underlying EPS in 2020, excluding the profit impact of Trilogy and Karen Murrell agency sales. Over the three years to 30 June 2020, TSR has increased at a compound annual growth rate (CAGR) of 40.3%.

It is very pleasing to report that consistent with the very strong financial outcomes of the company in 2020, executive key management personnel have achieved an overall STI outcome equivalent to 96.2% of the maximum STI opportunity.

Overall, the performance for the year demonstrated strong momentum, exceeding the Group's underlying EBIT target and resulting in a total variable remuneration for 2020 higher than the prior period. This demonstrates our commitment to performance-based rewards.

#### *2021 remuneration structure and response to COVID-19*

##### 2021 Short-Term Incentives

The high level of uncertainty regarding progression of the COVID-19 pandemic and its impact on both the global and domestic economies make accurate forecasting of the 2021 financial year extremely difficult. Consequently, a decision has been taken to have standalone financial targets for the first and second halves of 2021.

The Nomination and Remuneration Committee has approved the following short term incentive structure (STI) for 2021, with a maximum STI opportunity of 40% to 50% of fixed remuneration for senior leadership team members, which will reflect:

- ▶ Flexibility to consider events beyond the control of management at the Board's discretion;
- ▶ Higher consideration of non-financial outcomes in a period of increased financial uncertainty arising from the COVID-19 pandemic;
- ▶ Separate non-financial KPIs for the two halves;
- ▶ Shorter time frames for the assessment of financial and non-financial targets (6-month periods);
- ▶ A challenging 2H21 forecast will be determined by the Board based on prevailing conditions at the end of December 2020; and
- ▶ STI eligibility being subject to the ongoing financial strength and capacity of the Group to fund incentives.

**(k) Remuneration Report (continued)**

*Letter from the Chairman of the Nomination and Remuneration Committee (continued)*

*2021 remuneration structure and response to COVID-19 (continued)*

2021 Long-Term Incentives

The Nomination and Remuneration Committee has also considered the structure and vesting criteria of the 2021 long-term incentives (LTI) and Performance Rights Plan, including the following relevant factors:

- ▶ Prevailing and likely forward macro-economic conditions;
- ▶ The CEO's Exceptional Level Performance (ELP) rights being designed to reward exceptional performance outcomes;
- ▶ Alignment with shareholder expectations; and
- ▶ Shareholder approved performance rights vesting parameters.

Following consideration, the Nomination and Remuneration Committee has approved the following terms in relation to performance rights to be granted in 2021:

<b>KMP</b>	<b>LTI attributes</b>	<b>Description</b>
Chief Executive Officer	Maximum LTI	The CEO's total maximum LTI opportunity of \$1 million is allocated as follows: <ul style="list-style-type: none"> <li>▶ HLP rights: 40% of the LTI opportunity with vesting based on EPS CAGR; and</li> <li>▶ ELP rights: 60% of the LTI opportunity with vesting based on TSR CAGR</li> </ul>
	HLP vesting hurdles	The minimum vesting criteria applicable to the HLP rights over a three year performance period is 3.0% EPS CAGR, with the number of rights vesting determined on a straight line basis from zero vesting at +3.0% EPS CAGR to 100% vesting at +8.0% (or higher) EPS CAGR
	ELP vesting hurdles	The minimum vesting criteria applicable to the ELP rights over a four year performance period is 10.0% TSR CAGR, with the number of rights vesting determined on a straight line basis from 25% vesting at +10.0% TSR CAGR to 100% vesting at +20.0% (or higher) TSR CAGR
Other KMP and senior executives	Maximum LTI	The maximum total LTI opportunity is 40% of fixed remuneration
	Performance rights	The performance rights granted are split equally between those with EPS CAGR and TSR CAGR vesting criteria, in each case measured over a three year performance period
	EPS CAGR vesting hurdles	The minimum vesting criteria applicable to the EPS CAGR rights over a three year performance period is 3.0%, with the number of rights vesting determined on a straight line basis from zero vesting at +3.0% EPS CAGR to 100% vesting at +8.0% (or higher) EPS CAGR
	TSR CAGR vesting hurdles	The minimum vesting criteria applicable to the TSR CAGR rights over a three year performance period is 8.0%, with the number of rights vesting determined on a straight line basis from 25% vesting at +8.0% TSR CAGR to 100% vesting at +13.0% (or higher) TSR CAGR

Base Remuneration

Remuneration consultants will potentially be engaged to evaluate our proposed remuneration levels and structure for the FY22 in the context of McPhersons' business strategy, stakeholder feedback, community expectations, relevant market standards and COVID-19 challenges.

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

Yours sincerely

Jane McKellar  
**Chairman of the Nomination and Remuneration Committee**

**(k) Remuneration Report (continued)**

The McPherson's Limited 2020 remuneration report sets out key aspects of the Group's remuneration policy and framework, and provides details of the remuneration awarded to the Group's non-executive Directors, Managing Director and other key management personnel.

The remuneration report contains the following sections:

- ▶ Key Management Personnel (KMP)
- ▶ Principles used to determine the nature and amount of remuneration
- ▶ Details of remuneration
- ▶ Contractual arrangements for executive KMP
- ▶ Share-based compensation
- ▶ Additional information

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

**Key Management Personnel**

*Directors*

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

<b>Name</b>	<b>Role</b>	<b>Term as KMP in 2020</b>
G.A. Cubbin	Chairman (Non-executive)	Full year
L. McAllister	Executive Director & Managing Director	Full year
J.M. McKellar	Non-executive Director	Full year
G.W. Peck	Non-executive Director	Full year
G.R. Pearce	Non-executive Director	Full year
A.J. Mew	Non-executive Director	Full year

*Other key management personnel*

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

<b>Name</b>	<b>Role</b>	<b>Term as KMP in 2020</b>
P. Witheridge	Chief Financial Officer and Company Secretary	Full year
L. Pirozzi	National Accounts Director	Full year

*Changes since the end of the reporting period*

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

**(k) Remuneration Report (continued)**

**Key management personnel (continued)**

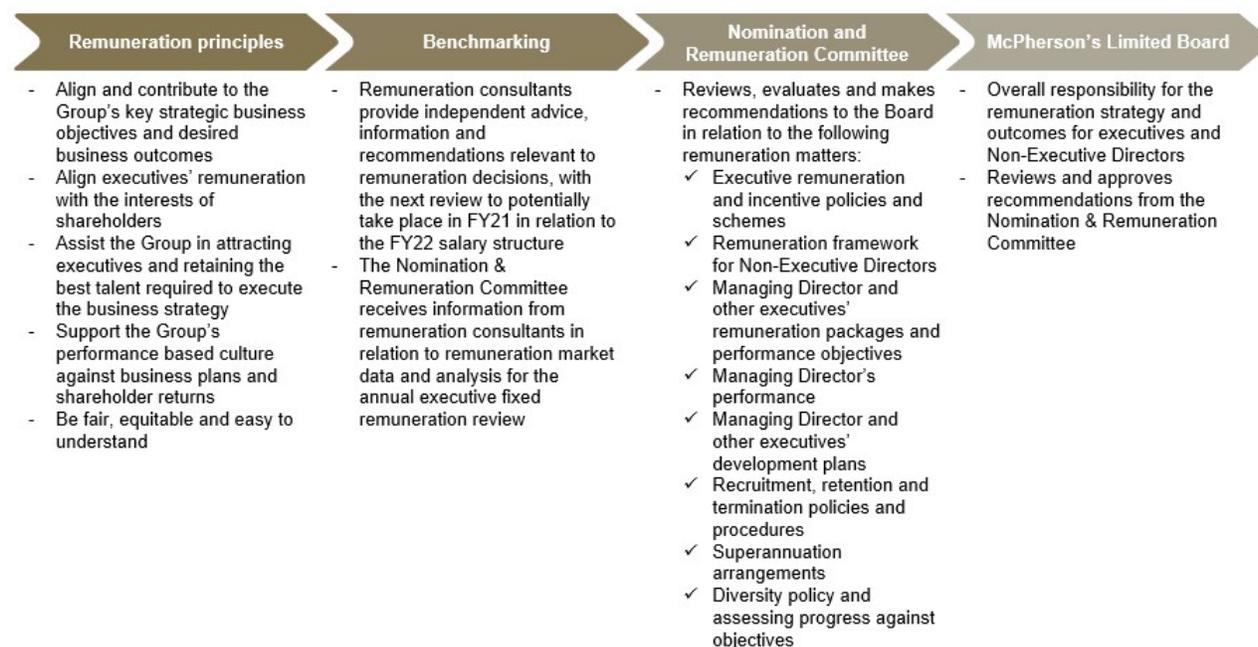
*Remuneration structure for key management personnel*

McPherson's remuneration structure is as follows. It is designed to support the Board's remuneration strategy and is consistently applied to all key executive management personnel.



**Remuneration Governance framework**

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



**(k) Remuneration Report (continued)**

**Principles used to determine the nature and amount of remuneration**

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

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

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

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

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017<sup>1</sup></b>	<b>2016<sup>1</sup></b>
Profit/(loss) after tax for the year from continuing operations (\$'000)	<b>6,062</b>	13,721	11,359	(387)	9,330
Profit after tax from continuing operations, excluding significant items (\$'000)	<b>16,336</b>	13,721	12,944	11,384	11,277
Basic earnings/(loss) per share (cents) from continuing operations	<b>5.7</b>	13.0	10.9	(0.4)	9.4
Basic earnings per share (cents), excluding significant items from continuing operations	<b>15.3</b>	13.0	12.4	11.0	11.4
Dividends declared for the relevant financial year (\$'000)	<b>11,783</b>	12,688	8,866	8,288	7,926
Dividend payout ratio as a percentage of profit / (loss) after tax for the year from continuing operations (%)	<b>194.4</b>	92.5	78.1	n/m <sup>2</sup>	84.9
Dividend payout ratio as a percentage of profit from continuing operations excluding significant items (%)	<b>72.1</b>	92.5	68.5	72.8	70.3
Increase / (decrease) in period end share price (%)	<b>129.9</b>	(29.3)	31.2	48.6	54.9
Total KMP incentives as percentage of profit / (loss) from continuing operations for the year (%)	<b>11.5</b>	2.7	5.8	(139.1)	1.0
Total KMP incentives as percentage of profit after tax from continuing operations excluding significant items (%)	<b>4.3</b>	2.7	5.1	4.7	0.8

- 1) The comparative numbers of the Group have been restated to show the discontinued operations separately from the continuing operations.
- 2) Ratio not considered meaningful due to loss after tax recognised for the year.

**(k) Remuneration Report (continued)**

**Principles used to determine the nature and amount of remuneration (continued)**

*Executive remuneration*

The executive remuneration and reward framework has three components:

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

The Remuneration Framework for 2020 is summarised in the following table:

<b>Element</b>	<b>Purpose</b>	<b>Performance Metrics</b>	<b>Potential Value</b>
<b>Fixed Remuneration</b>	Provide competitive market salary which may be delivered as cash, prescribed non-cash financial benefits including motor vehicles and superannuation contributions.	Nil	Market rate  Reviewed annually to reflect increases in responsibility and to ensure it remains market competitive. Increases are not guaranteed in the executives' contracts.
<b>STI</b>	Reward for current year performance available when value has been created for shareholders and when profit and other outcomes are consistent with or exceed financial targets for the business plan.	Group or divisional earnings before interest and tax (EBIT) together with pre-determined significant role specific objectives.  Short-term cash bonuses in relation to the achievement of specific outcomes associated with certain significant events.	50% of fixed remuneration. New members of the senior leadership team will have an STI target of 40% of fixed remuneration.  At the discretion of the Nomination and Remuneration Committee.
<b>LTI</b>	Alignment to long-term shareholder returns via the Performance Rights plan. Participants benefit from the vesting of Performance Rights if performance objectives are met.	<b>Managing Director:</b> i. High Level Performance Rights (HLP) – Compound annual growth rate (CAGR) in earnings per share (EPS) over three years. ii. Exceptional Level Performance Rights (ELP) – CAGR in total shareholder return (TSR) over four years.  <b>Other senior executives:</b> 50% of vesting determined with reference to CAGR in EPS and 50% with reference to CAGR in TSR, each over three years.	<b>Managing Director:</b> \$1 million per annum in total comprising: i. HLP – 40% of fixed remuneration. ii. ELP – remaining balance of \$1 million per annum.  <b>Other senior executives:</b> 40% of fixed remuneration.

**(k) Remuneration Report (continued)**

**Principles used to determine the nature and amount of remuneration (continued)**

**Short-term incentives (STI)**

Each year the Nomination and Remuneration Committee considers the appropriate targets and key performance indicators together with the level of payout if targets are met or exceeded. The 2020 STI targets for the Managing Director and senior executives were structured as follows:

STI element target	Criteria
<b>(i) Financial target 35% of fixed remuneration</b>	Group underlying earnings before interest and tax (EBIT) outcomes for the financial year, excluding significant items and compared with the prior year, adjusted for actual funds employed outcomes compared with budget
<b>(ii) Non-financial target* 15% of fixed remuneration</b>	Achievement of specific role based key performance indicators, subject to the Group achieving at least 80% of its 2020 EBIT budget

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

<b>Assessment</b>	Eligibility for a cash bonus is made by reference to actual performance outcomes when these are known following the conclusion of the financial year. Short-term incentives are normally payable in late August following the end of the financial year to which the incentive relates.
<b>STI financial target</b>	Based on the Group's profit performance in 2020, the Nomination and Remuneration Committee has determined that the Managing Director, KMPs and other senior executives are eligible for the maximum target STI in relation to element (i) as the Group underlying EBIT outcome in 2020 was above that reported in 2019 by 18%.
<b>STI non-financial target</b>	Based on the Group's achievement of pre-determined objectives in 2020 and the significant steps taken to position the business well for 2021, the Nomination and Remuneration Committee has determined that the Managing Director, KMPs and other senior executives are eligible for an STI in relation to element (ii) above in 2020.

From time to time additional short-term cash bonuses are paid to senior executives in relation to the achievement of specific outcomes associated with certain significant events. Examples of such events may include, among others, completing a significant acquisition or investment, achieving a required divestment outcome, completing a significant restructure project or completing a refinancing of the business. The Nomination and Remuneration Committee is responsible for determining when such bonus payments are applicable and the amount to be paid.

Specific STI performance metrics and outcomes for each KMP in 2020 are summarised in the table below:

KMP	Metrics	Potential STI outcomes	2020 Outcomes
<b>Managing Director</b>	<b>Financial</b>	<b>Financial</b> Pro-rata to target 35% of fixed remuneration	<b>Financial</b> \$259,000
	(i) If <100% of prior year underlying EBIT with reference to Group EBIT: <b>No STI payable</b>	<b>Non-Financial</b> 15% of fixed remuneration*	<b>Non-Financial</b> \$83,250
<b>Chief Financial Officer and Company Secretary</b>	(ii) If between 100% and 110% of prior year underlying EBIT with reference to Group EBIT: <b>Pro-rata STI payable</b>	<b>Financial</b> Pro-rata to target 35% of fixed remuneration	<b>Financial</b> \$138,478
	(iii) If 110% and above prior year underlying EBIT with reference to Group EBIT: <b>Maximum target STI payable</b>	<b>Non-Financial</b> 15% of fixed remuneration*	<b>Non-Financial</b> \$59,347
<b>National Accounts Director</b>	<b>Non-Financial</b>	<b>Financial</b> Pro-rata to target 35% of fixed remuneration	<b>Financial</b> \$112,000
	Achievement of role specific pre-determined objectives providing at least 80% of budget Group EBIT is achieved	<b>Non-Financial</b> 15% of fixed remuneration*	<b>Non-Financial</b> \$48,000

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

**(k) Remuneration Report (continued)**

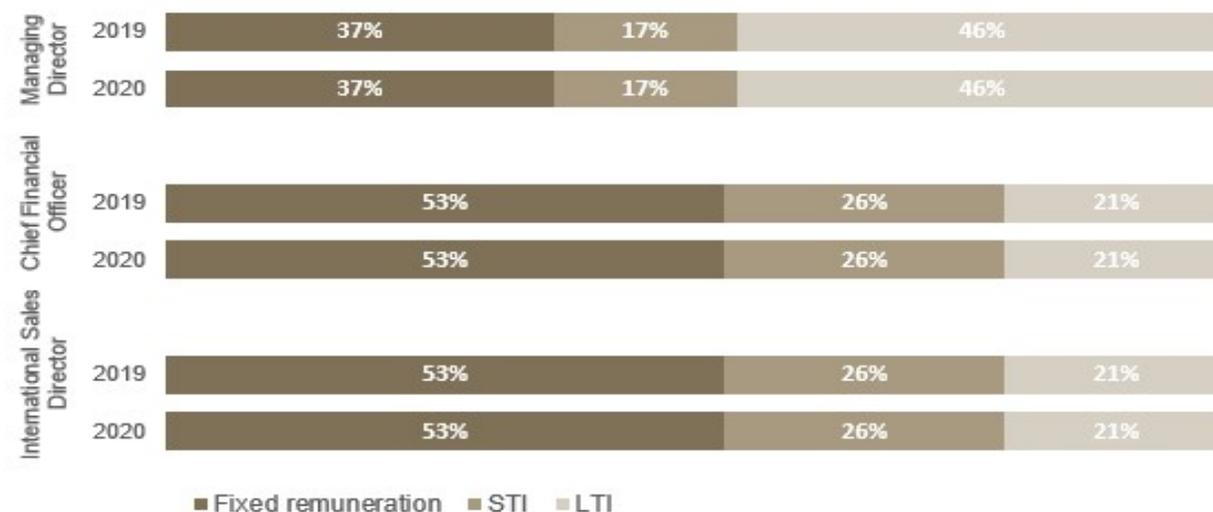
**Principles used to determine the nature and amount of remuneration (continued)**

Long-term incentives (LTI)

<b>Purpose</b>	Long-term incentives are provided to executives to align this element of compensation with the objective of improving long-term shareholder returns. During the current year, the Group continued with its Performance Rights plan (the McPherson's Limited Performance Rights Plan) to provide long-term incentives to executives.
<b>Performance Rights Plan</b>	Participants are granted Performance Rights which only vest if certain performance conditions (relating to compound annual growth in earnings per share and total shareholder return – refer to page 26 for further information) are met and the executive is still employed by the Group at the end of the vesting period, or where not employed at the end of the vesting period is deemed to be a "good leaver" by the Board.
<b>Participation</b>	At the discretion of the Nomination and Remuneration Committee and no individual has a contractual right to receive any guaranteed benefits.
<b>Maximum LTI</b>	Managing Director – \$1 million per annum; Other senior executives – 40% of fixed remuneration.
<b>LTI outcomes in particular events</b>	<p>Subject to the ASX Listing Rules, the Board may determine that a Right will become a Vested Right and may be exercised, whether or not any or all applicable exercise conditions have been satisfied if, in the Board's opinion, one of the following events has occurred or is likely to occur:</p> <ul style="list-style-type: none"> <li>• The merger or consolidation of the Group into another entity occurs;</li> <li>• A takeover bid is made in respect of the Group and the Board recommends acceptance to shareholders;</li> <li>• A scheme of arrangement is made or undertaken in respect of the Group, and the Board in its absolute discretion determines exercise to be appropriate;</li> <li>• Any event similar to those described above involving a change in ownership or control of the Group or all or substantial part of the assets of the Group; or</li> <li>• Any other event as determined by the Board in its absolute discretion.</li> </ul>

Further information regarding share-based compensation in the form of Performance Rights is contained later in the Remuneration Report on page 26.

The graph below shows the structure of the 2020 remuneration opportunity mix for KMP, compared to 2019.



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

**Voting and comments made at the Company's 2019 Annual General Meeting (AGM)**

Of the total votes cast in relation to the adoption of the 2019 remuneration report by shareholders present at the AGM and by proxy, 97.9% voted in favour of the resolution. Several general questions relating to remuneration and the 2019 remuneration report were asked by shareholders at the 2019 AGM, which were appropriately responded to by the Chairman and other Non-Executive Directors at the meeting.

(k) Remuneration Report (continued)

Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors of McPherson's Limited and the other KMP of McPherson's Limited and the McPherson's Limited Group for the current and previous financial years are set out in the following tables.

2020	Short-term Benefits			Termination Benefits \$	Post employment Benefits	Long-term Benefits	Share-based Payments	Total \$
	Cash Salary & Fees <sup>1</sup> \$	Cash Bonus <sup>2</sup> \$	Non-monetary Benefits <sup>3</sup> \$		Superannuation \$	Long-Service Leave \$	Performance Rights \$	
Name								
<b>Directors of McPherson's Limited</b>								
G.A. Cubbin (Chairman)	150,247	-	-	-	14,274	-	-	164,521
L. McAllister (Managing Director)	708,121	342,250	58,404	-	25,000	12,777	267,462	1,414,014
J.M. McKellar	91,354	-	-	-	8,679	-	-	100,033
G.W. Peck	85,349	-	-	-	8,108	-	-	93,457
G.R. Pearce	75,730	-	-	-	7,194	-	-	82,924
A.J. Mew	75,730	-	-	-	7,194	-	-	82,924
<b>Total Directors' Remuneration 2020</b>	<b>1,186,531</b>	<b>342,250</b>	<b>58,404</b>	<b>-</b>	<b>70,449</b>	<b>12,777</b>	<b>267,462</b>	<b>1,937,873</b>
<b>Other Group Key Management Personnel</b>								
P. Witheridge	372,999	197,825	20,472	-	24,996	6,190	38,143	660,625
L. Pirozzi <sup>4</sup>	292,114	160,000	-	-	25,000	4,434	32,344	513,892
<b>Total Other Key Management Personnel Remuneration 2020</b>	<b>665,113</b>	<b>357,825</b>	<b>20,472</b>	<b>-</b>	<b>49,996</b>	<b>10,624</b>	<b>70,487</b>	<b>1,174,517</b>
<b>Total Remuneration 2020 – Group</b>	<b>1,851,644</b>	<b>700,075</b>	<b>78,876</b>	<b>-</b>	<b>120,445</b>	<b>23,401</b>	<b>337,949</b>	<b>3,112,390</b>

<sup>1</sup> Cash salary and fees includes movements in the annual leave provision relating to the Managing Director and other executive key management personnel.

<sup>2</sup> Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution. Refer page 23 for further information on bonuses awarded.

<sup>3</sup> Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax and allowances.

<sup>4</sup> Ms Pirozzi was on maternity leave from 1 August 2018 to 26 October 2018 which explains the relatively low outcome in 2019.

(k) Remuneration Report (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

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

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

<sup>1</sup> Cash salary and fees includes movements in the annual leave provision relating to the Managing Director and other executive key management personnel.

<sup>2</sup> Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution. Refer page 23 for further information on bonuses awarded.

<sup>3</sup> Non-monetary benefits comprise salary sacrificed components of remuneration packages including motor vehicles and related fringe benefits tax and allowances.

<sup>4</sup> Ms Pirozzi was on maternity leave from 1 August 2018 to 26 October 2018 which explains the relatively low outcome in 2019.

**(k) Remuneration Report (continued)**

*Details of remuneration (continued)*

*Relative proportions of remuneration*

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

Long term incentives relating to Performance Rights form part of the remuneration amounts as disclosed in this report. There were no other option related amounts included in the current or prior year remuneration. The table below illustrates the relative proportions of remuneration paid out in 2020 and 2019, except in relation to the LTI element which is determined in accordance with AASB 2 Share-based Payments.

Name	Fixed Remuneration		At Risk - STI		At Risk - LTI	
	2020	2019	2020	2019	2020	2019
<b>Executive Director of McPherson's</b>						
L. McAllister	57%	75%	24%	16%	19%	9%
<b>Other key management personnel of the Group</b>						
P. Witheridge	64%	84%	30%	22%	6%	(6%)
L. Pirozzi	63%	72%	31%	27%	6%	1%

*Performance based remuneration granted and forfeited during the year*

The following table shows for each KMP how much of their 2020 STI cash bonus was awarded and how much was forfeited. The table also shows the value of Performance Rights granted during the year. The Performance Rights are valued in accordance with AASB 2 Share-based Payments.

Name	STI Cash Bonus			LTI Performance Rights		
	Target Opportunity \$	Awarded as % of Target Opportunity	Forfeited %	Value Granted \$	Value Exercised \$	Value Forfeited \$
<b>Executive Director of McPherson's</b>						
L. McAllister	370,000	93%	7%	819,000	134,676	270,656
<b>Other key management personnel of the Group</b>						
P. Witheridge	197,825	100%	-	133,920	-	56,128
L. Pirozzi	160,000	100%	-	107,880	-	-

(k) Remuneration Report (continued)

Details of remuneration (continued)

Summary of KMP Remuneration and KPI Objectives for 2020

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
<b>L. McAllister</b> <i>Managing Director</i>	\$740,000 including super  \$50,000 motor vehicle allowance	Target cash bonus of 50% of fixed remuneration (excluding motor vehicle allowance), comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined KPI objectives	Rights under the Performance Rights plan as follows: Rights to be granted as a long term incentive on an annual basis with a face value of up to a maximum of \$1 million per annum:  (i) High Level Performance Rights (HLP) Rights with a face value of 40% of the maximum LTI opportunity subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period; and  (ii) Exceptional Level Performance Rights (ELP) Balance of the maximum LTI opportunity were subject to an absolute "total shareholder return" hurdle of at least 15% per annum, measured on a compound basis over a 4 year performance period	Maintain and enhance culture Grow market share across the McPherson's core 6 brands focused on Australia and China growth Deliver compelling capabilities and results across Asia Progress McPherson's' repositioning as a clear Health, Beauty and Wellness player
<b>P. Witheridge</b> <i>Chief Financial Officer and Company Secretary</i>	\$395,650 including super	Target cash bonus of 50% of fixed remuneration, comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined KPI objectives	Rights under the Performance Rights Plan equal to 40% of fixed remuneration with:  (i) 50% of the maximum opportunity subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period; and  (ii) 50% subject to an absolute "total shareholder return" hurdle of at least 10% per annum, measured on a compound basis over a 3 year performance period.	Coordinate the refinancing of the Group's debt position before 30 June 2020 Drive financial modelling for consideration of the commercial feasibility of potential acquisition targets Oversee due diligence of any material acquisitions, as they arise Coordinate equity capital raise to part fund a material acquisition Maintain and continue to develop close relationships with existing external analyst and investor base Drive improved efficiency of the Finance and IT functions Improve the identification, management and reporting of business risks to the Group Audit, Risk Management and Compliance Committee
<b>L. Pirozzi</b> <i>National Accounts Director</i>	\$290,000 including super  \$30,000 motor vehicle allowance	Target cash bonus of 50% of fixed remuneration (including motor vehicle allowance), comprising 35% of fixed remuneration based on a financial metric and 15% of fixed remuneration based on role specific pre-determined KPI objectives	Rights under the Performance Rights Plan equal to 40% of fixed remuneration (including motor vehicle allowance) with:  (i) 50% of the maximum opportunity subject to a target earnings per share compound annual growth rate hurdle, measured over a 3 year performance period; and  (ii) 50% subject to an absolute "total shareholder return" hurdle of at least 10% per annum, measured on a compound basis over a 3 year performance period	Implement and embed forecasting processes and practices Lead expansion strategy in new domestic channels in Australia and New Zealand Develop and implement integrated customer plans to support the growth of our Health, Wellness & Beauty business, driving growth for the MCP portfolio and category share Continue to optimise the MCP investment strategy via review of activity and ROI, Trading Terms & Execution across Key Accounts Build Key Account capabilities to support strategy and growth Develop and implement a commercial model to market supported by a defendable price architecture

**(k) Remuneration Report (continued)**

**Details of remuneration (continued)**

*Contractual arrangements for executive KMP*

Remuneration and other terms of employment for the Managing Director and other senior executives are formalised in employment agreements. Each of these agreements set out details of the base package amount, inclusive of superannuation and other benefits, and provide for performance incentives. The agreements also provide for participation, when eligible, in the McPherson's Limited Performance Rights Plan.

The agreements do not normally reflect a fixed term of employment or nominate a specified amount to be paid on termination of employment. The agreements normally provide that the termination notice period may be paid out by the Group.

The major provisions of the employment agreements relating to remuneration for the executives considered to be key management personnel are set out below.

<b>Name</b>	<b>Term of agreement</b>	<b>Fixed remuneration including superannuation and motor vehicle benefits<sup>1</sup></b>	<b>Termination</b>
<b>L. McAllister</b> <i>Managing Director</i>	On-going	\$790,000	Contract may be terminated on 6 months' notice by either the Company or executive.
<b>P. Witheridge</b> <i>Chief Financial Officer and Company Secretary</i>	On-going	\$395,650	Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive.
<b>L. Pirozzi</b> <i>National Accounts Director</i>	On-going	\$320,000	Contract may be terminated on 1 months' notice by either the Company or executive.

<sup>1</sup>The annual fixed remuneration amounts quoted are as at 30 June 2020. They are reviewed annually by the Nomination and Remuneration Committee.

**Share-based compensation**

**Performance Rights**

Each Performance Right carries an entitlement to acquire one ordinary share in the Company for no consideration subject to the satisfaction of the vesting conditions, which are based on performance and time related conditions. The Performance Rights carry no dividend or voting rights.

Approval for the issue of Performance Rights granted to the Managing Director for the years from 2019 to 2021 was obtained, under ASX Listing Rule 10.14, at the Company's 2019 Annual General Meeting.

(k) Remuneration Report (continued)

Share-based compensation (continued)

Performance Rights (continued)

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

Type of Rights	KMP	Year of Grant	Vesting Hurdles	Vesting Period
<b>Commencement Rights</b>	Managing Director	2017	To continue to be the Managing Director of the Company until 1 November 2019. These rights vested in 2020.	3 years
<b>High Level Performance Rights (HLP) and Performance Rights</b>	HLP - Managing Director	2017	Zero Rights vesting at +3.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +8.0% (or higher) Underlying EPS CAGR	3 years
	Performance Rights - Chief Financial Officer (and Company Secretary) and National Accounts Director	2018	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
<b>HLP</b>	Managing Director	2019 & 2020	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
<b>Performance Rights</b>	Chief Financial Officer (and Company Secretary) and National Accounts Director	2019 & 2020	<u>First 50% of Rights</u> Zero Rights vesting at +5.0% Underlying EPS CAGR (or less), to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
			<u>Remaining 50% of Rights</u> 25% of Rights vesting at +10.0% TSR CAGR (at least), to 100% of Rights vesting at +15.0% (or higher) TSR CAGR	3 years
<b>Exceptional Level Performance Rights (ELP)</b>	Managing Director	2017 & 2018	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +25.0% TSR CAGR (or higher)	4 years
		2019 & 2020	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +20.0% TSR CAGR (or higher)	4 years

The base year EPS to be used in determining whether the vesting conditions have been satisfied is the reported Underlying EPS for the 30 June financial year immediately prior to when the rights were issued. Subject to the ASX Listing Rules, the Underlying EPS is subject to further adjustment at the discretion of the Nomination and Remuneration Committee when considered appropriate.

(k) Remuneration Report (continued)

Share-based compensation (continued)

Performance Rights (continued)

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

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

Name	Financial year of grant	Financial year in which rights may vest	Number of rights granted	Fair value of rights at grant date <sup>1</sup>	Face value of rights at grant date <sup>2</sup>	Number of rights vested during the year	Vested %	Number of rights forfeited during the year	Forfeited %
<b>L. McAllister</b>									
Commencement Performance rights	2017	2020	263,000	\$222,235	\$300,000	263,000	100	-	-
HLP	2017	2020	318,000	\$270,656	\$350,000	-	-	318,000	100
	2018	2021	235,000	\$294,410	\$350,000	-	-	-	-
	2019	2022	214,000	\$276,060	\$350,000	-	-	-	-
	2020	2023	182,000	\$404,040	\$400,000	-	-	-	-
ELP	2017	2021	590,000	\$212,990	\$650,000	-	-	-	-
	2018	2022	436,000	\$245,468	\$650,000	-	-	-	-
	2019	2023	398,000	\$172,060	\$650,000	-	-	-	-
	2929	2024	273,000	\$414,960	\$600,000	-	-	-	-
<b>P. Witheridge</b>	2017	2020	64,000	\$56,128	\$71,000	-	-	64,000	100
	2018	2021	49,000	\$61,446	\$73,129	-	-	-	-
	2019	2022	89,000	\$82,058	\$146,258	-	-	-	-
	2020	2023	72,000	\$133,920	\$158,260	-	-	-	-
<b>L. Pirozzi</b>	2018	2021	43,000	\$53,922	\$64,035	-	-	-	-
	2019	2022	78,000	\$71,916	\$128,070	-	-	-	-
	2020	2023	58,000	\$107,880	\$128,070	-	-	-	-

<sup>1</sup> The fair value at grant date is calculated in accordance with AASB 2 *Share-based Payments*

<sup>2</sup> The face value at grant date is calculated using the 20 day VWAP preceding the date of grant

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

Performance Rights	Fair Value
Commencement Rights and HLP	Independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the commencement date or grant date less the present value of expected dividends forgone prior to vesting
ELP	Independently valued at grant date using the assumptions underlying the Black-Scholes methodology to produce a simulation model which allows for the incorporation of the Total Shareholder Return (TSR) hurdle that must be met before these rights vest  Consequently, in addition to being sensitive to the dividend yield, the ELP Rights are also sensitive to market volatility and the initial TSR, with the risk free rate as a further valuation input
Other Performance Rights	<b>Financial year of grant before 2019</b> Independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the grant date less the present value of expected dividends forgone prior to vesting
	<b>Financial year of grant 2019 onwards</b> EPS CAGR element independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the grant date less the present value of expected dividends forgone prior to vesting  TSR CAGR element independently valued at grant date using the assumptions underlying the Black-Scholes methodology to produce a simulation model which allows for the incorporation of the Total Shareholder Return (TSR) hurdle that must be met before these rights vest. Consequently, in addition to being sensitive to the dividend yield, the Performance Rights are also sensitive to market volatility and the initial TSR, with the risk free rate as a further valuation input

**(k) Remuneration Report (continued)**

**Share-based compensation (continued)**

Performance Rights (continued)

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

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

Performance Rights (units) held by KMP

Name	Balance at start of the year	Granted as compensation	Vested and exercised rights	Cancelled	Balance at the end of the year	Vested and exercisable	Unvested
<b>L. McAllister</b> Commencement Performance rights	263,000	-	(50,000)	-	213,000	213,000	-
HLP	767,000	182,000	-	(318,000)	631,000	-	631,000
ELP	1,424,000	273,000	-	-	1,697,000	-	1,697,000
<b>P. Witheridge</b> Performance Rights	202,000	72,000	-	(64,000)	210,000	-	210,000
<b>L. Pirozzi</b> Performance Rights	121,000	58,000	-	-	179,000	-	179,000

Shares held by key management personnel

Name	Balance at the start of the year	Other non-remuneration changes during the year	Balance at the end of the year
<b>Directors of McPherson's Limited</b>			
G.A. Cubbin	200,000	70,000	270,000
L. McAllister*	-	-	-
J.M. McKellar	6,277	80	6,357
G.W. Peck	14,400	-	14,400
G.R. Pearce	690,939	5,000	695,939
A.J. Mew	12,000	-	12,000
<b>Other key management personnel</b>			
P. Witheridge	100,000	(80,000)	20,000
L. Pirozzi	-	-	-

\*During the year, Mr. McAllister exercised 50,000 commencement performance rights. The 50,000 shares issued to him were subsequently sold on market.

Employee share schemes

Under the McPherson's Employee Share Scheme, approved by the Board of Directors, shares with up to \$1,000 value may be issued by the Company to certain employees for no cash consideration. The purpose of this scheme is to improve employee engagement, reward our employees for service and provide employees with an ownership interest in the company, thereby improving the alignment of investor and employee objectives.

<b>Eligibility</b>	All employees, excluding the Managing Director and other members of the Senior Leadership Team who are entitled to a long term incentive, who have been continuously employed by the Group for a period of at least one year, at the discretion of the Board of Directors. Employees may elect not to participate in the scheme.
<b>Shares</b>	Granted up to \$1,000 worth of fully paid ordinary shares in the Group annually for no cash consideration. The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the week ending the day before the date of issue on 12 August 2020 (2019: 31 July 2019).
<b>Conditions attached to the shares</b>	<ul style="list-style-type: none"> <li>The shares granted in 2019 vested on 31 July 2020, provided the employee remains employed to the Group.</li> <li>Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment.</li> <li>In all other respects, the shares rank equally with other fully-paid ordinary shares on issue.</li> </ul>

**(k) Remuneration Report (continued)**

**Share-based compensation (continued)**

Employee share schemes (continued)

The Board of Directors has determined that the scheme will be continued in 2021 on the same basis as outlined above.

	<b>12 August 2020</b>	<b>31 July 2019</b>
Number of shares issued under the Employee Share Scheme	<b>88,288</b>	120,771

The number of shares issued to participants on 12 August 2020 was calculated based on the \$1,000 offer amount divided by the weighted average price of \$2.801 (2019: \$1.763) at which the company's shares were traded on the Australian Stock Exchange during the week ending the day before the date of issue.

**Non-Executive Directors**

<b>Fees</b>	Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Remuneration of non-executive Directors is determined by the Board within an aggregate non-executive Directors' fee pool limit which is periodically recommended for approval by the shareholders.
<b>Shareholder approval for Directors' fees</b>	<p>The aggregate fee pool was last considered by shareholders at the 2018 Annual General Meeting when a total remuneration of \$650,000, increased from \$550,000, (each inclusive of superannuation), was approved by shareholders.</p> <p>The Board asked shareholders to approve such increase as a consequence of an increase in the number of non-executive Directors from four to five, to provide capacity for the fees to be increased if required, and to provide the flexibility to appoint an additional Director if it was appropriate to do so.</p> <p>Including superannuation guarantee contributions made on their behalf by the Company, non-executive Director remuneration for the year ended 30 June 2020 totalled \$523,859 (2019: \$518,862).</p>
<b>Incentives</b>	Non-executive Directors are not entitled to participate in any incentive scheme, nor are they eligible to receive share options or performance rights.
<b>Review by the Nomination and Remuneration Committee</b>	The remuneration of individual non-executive Directors was last reviewed by the Nomination and Remuneration Committee on 1 July 2017, at which time non-executive Director fees and committee fees were increased by 10%, the previous fee increase being 3% on 1 October 2014.
<b>Additional fees</b>	<p>The Chairman and other non-executive Directors receive additional fees for their membership of the Board's Audit, Risk Management and Compliance Committee.</p> <p>The Chairman of the Nomination and Remuneration Committee also receives an additional fee, however the other members of that committee do not.</p>
<b>Superannuation</b>	Directors may direct the Company to make superannuation guarantee contributions, or additional superannuation contributions allocated from their Directors' or committee membership fees, to any complying nominated superannuation fund.
<b>Directors' Deeds</b>	<p>At the Annual General Meeting of shareholders held on 7 November 1997, shareholders authorised the Company to enter into agreements with Directors (called "Directors' Deeds") which set out certain rights and obligations of the Director.</p> <p>The Directors' Deeds do not reflect a fixed term of appointment as Directors are subject to retirement and re-election by shareholders at least every three years.</p>

**(k) Remuneration Report (continued)**

**Share-based compensation (continued)**

Non-Executive Directors (continued)

The following fees applied for the year ended 30 June 2020 and continue to apply at the date of this report:

	2020	2019
<b>Base fees</b>		
Chairman	\$144,243	\$144,243
Other Non-Executive Directors	\$75,730	\$75,730
<b>Additional fees</b>		
Audit, Risk Management & Compliance Committee (Chairman)	\$9,620	\$9,620
Audit, Risk Management & Compliance Committee (Member)	\$6,006	\$6,006
Nomination & Remuneration Committee (Chairman)	\$9,620	\$9,620

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

**Additional information**

**Loans to Directors and Executives**

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

**Other transactions with Directors and Executives**

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

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

- ▶ On 10 October 2019, McPherson's Limited and Aware Environmental Limited (Aware) executed a Subscription Agreement and a Deed of Amendment, which set the terms under which:
  - McPherson's Limited converted its 3,000,000 convertible notes at a conversion price of \$0.60 per share into 5,000,000 ordinary shares in Aware; and
  - McPherson's Limited subscribed for 5,000,000 shares in Aware at a subscription price of \$0.60 per share.

The Group's 10,000,000 shares represent 10.7% of the capital of Aware at 30 June 2020.

- ▶ Mr. Geoffrey Pearce is a Director and a significant shareholder of Aware. The above transactions were conducted on normal commercial arm's length terms and entered into in order to provide a more robust and reliable basis of skin care product supply to McPherson's.

**(l) Shares under option**

Unissued ordinary shares of McPherson's Limited under option at the date of this report are as follows:

<b>Date options granted</b>	<b>Expiry date</b>	<b>Number of shares under option</b>
21 November 2016	1 November 2024	213,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

**Shares issued on the exercise of options**

The following ordinary shares of McPherson's Limited were issued during the year ended 30 June 2020 on the exercise of options. No further shares have been issued since that date and no amounts are unpaid.

<b>Date options granted</b>	<b>Issue price of Shares</b>	<b>Number of shares issued</b>
21 November 2016	\$2.69	50,000

**(m) Indemnification and insurance of officers**

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

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

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

**(n) Environmental regulation**

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

**(o) Proceedings on behalf of the Group**

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

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

**(p) Non-audit services**

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

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

**(p) Non-audit services (continued)**

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

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

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

	2020 \$	2019 \$
<b>Other services</b>		
PricewaterhouseCoopers Australian firm:		
Consumables review	50,000	-
<b>Total remuneration for other services</b>	<b>50,000</b>	<b>-</b>
<b>Total remuneration for non-audit services</b>	<b>50,000</b>	<b>-</b>

A copy of the auditor's independence as required under section 307C of the *Corporations Act 2001* is set out on page 33.

**(q) Rounding**

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

**(r) Audit, Risk Management and Compliance Committee**

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

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

Signed in accordance with a resolution of the Directors:



**G.A. Cubbin**  
Chairman  
18 August 2020



**L. McAllister**  
Managing Director  
18 August 2020



## *Auditor's Independence Declaration*

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

*S.T. Maher*

Shannon Maher  
Partner  
PricewaterhouseCoopers

Sydney  
18 August 2020

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)  
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T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

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

- (a) the financial statements and notes as set out on pages 40 to 99 and the remuneration report on pages 13 to 30 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the parties to the Deed of Cross Guarantee identified in Note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 32.

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

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

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



**G.A. Cubbin**  
Chairman  
18 August 2020



**L. McAllister**  
Managing Director  
18 August 2020

## *Independent auditor's report*

To the members of McPherson's Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of McPherson's Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2020
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

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

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

#### ***Independence***

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

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#### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<ul style="list-style-type: none"> <li>• For the purpose of our audit we used overall Group materiality of \$1.19million, which represents approximately 5% of the Group's profit before tax adjusted for impairment charges.</li> <li>• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>• We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted for impairment charges as they are unusual or infrequently occurring items impacting profit and loss.</li> <li>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>• Our audit work focussed on the financial information of McPherson's Consumer Products Pty Limited Australia given its financial significance to the Group as a whole. Additionally, we performed specific risk focussed audit procedures in relation to the Group's other operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> <li>– Impairment of goodwill and brand names</li> <li>– Provision for inventory obsolescence</li> <li>– Recoverability of investments in Joint Ventures and Financial assets at fair value through other comprehensive income (FVOCI)</li> </ul> </li> <li>• These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>

### *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Impairment of goodwill (carrying value of \$15.76 million) and brand names (carrying value of \$48.31 million)</b> (Refer to notes 1 and 16)</p> <p>The present challenges in the trading environment and change in consumer demand during the COVID-19 pandemic, provide uncertainty and require significant judgement in relation to forecasting future cash flows. This has an impact on the value in use and the possibility of impairment of the intangible assets, which is an area of focus for the directors.</p> <p>In the current year an impairment charge of \$8.52 million was recognised in respect of brand names.</p> <p>Significant judgement is required to estimate the key assumptions in the models prepared by the Group to determine the recoverable amount of goodwill and brand names and the amount of any resulting impairment. The most significant areas of judgement relate to:</p> <ul style="list-style-type: none"> <li>- Forecasting future cashflows; and</li> <li>- Determining the appropriate growth and discount rates.</li> </ul> <p>Given the level of judgement involved and the magnitude of the intangible assets recognised on the Group's consolidated balance sheet this was a key audit matter.</p>	<p>We have performed procedures over the Group's impairment models (models). This involved consideration of whether the Group's determination of Cash Generating Unites (CGUs) was consistent with our understanding of the nature of the Group's operations and internal Group reporting. We also assessed whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU and a reasonable allocation of corporate assets and overheads.</p> <p>In assessing the models and the Group's ability to forecast, we evaluated the Group's future cash flow forecasts in the models and understood the process by which they were developed, with reference to the historical performance of the business.</p> <p>In addition, we tested that forecast cash flows used in the impairment models were consistent with the most up-to-date budgets and business plans formally approved by the Board. We also tested the mathematical accuracy, on a sample basis, of the impairment models' calculations.</p> <p>We compared the discount rates and growth rates used in the models to benchmarks developed by our valuation expert, which are based on market data and industry research.</p> <p>We also evaluated the adequacy of the disclosures made in note 16, including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.</p>
<p><b>Provision for inventory obsolescence (\$3.75 million)</b> (Refer to note 1 and 10)</p> <p>The Group has gross inventories of \$50.83 million with a provision of \$3.75 million for inventory obsolescence/slow moving and discontinued stock. Inventory consists of raw materials and finished goods.</p> <p>As the Group values inventory at the lower of cost and net realisable value estimates are required to determine the recoverable amount. These estimates are based on the Group's projection of future sales volumes and prices.</p> <p>Given the level of judgement involved in calculating the provision and the magnitude of inventory recognised on the Group's consolidated balance sheet this was a key audit matter.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>- Tested the mathematical accuracy and completeness of the provision calculation against the list of stock on hand;</li> <li>- Evaluated whether the methodology applied to calculate the provision was reasonable and consistent with that applied in prior years;</li> <li>- For a sample of inventory items compared the latest sales price to their cost to check if items being sold below cost were being appropriately provided for;</li> <li>- On a sample basis compared inventory holdings at year-end to forecast sales volumes to identify potential slow-moving lines and assessed the adequacy of any related provisioning;</li> <li>- Assessed post year-end sales to test whether there was significant movement in relation to line items that the Group had identified as slow-moving; and</li> <li>- Attended a physical stocktake where we tested a sample to verify the existence of the inventory items and identify damaged inventory items.</li> </ul>

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Recoverability of investments in Joint Ventures (carrying value of \$1.91 million) and Financial assets at fair value through other comprehensive income (FVOCI) (\$6.00 million)</i></b> <i>(Refer to note 1, 13 and 18)</i></p> <p>Over the past two years the Group has expanded the business through investing in Joint Ventures and other equity investments.</p> <p>Considering the current challenge in the market and that these investments are in their early development or production stages, the Group is required to make significant judgements to estimate the key assumptions used in the determination of their recoverable amounts. The most significant areas of judgement relate to:</p> <ul style="list-style-type: none"> <li>- Forecasting future cash flows; and</li> <li>- Determining the appropriate discount rates assisted by an external expert.</li> </ul> <p>In the current year an impairment charge of \$1.97 million was recognised in respect of investments in Joint Ventures.</p> <p>Given the level of judgement involved and the financial significance of these investments this was a key audit matter.</p>	<p>We have performed procedures over the Group's recoverability assessment models (the models). This involved testing the mathematical accuracy of the models' calculations and an evaluation of the cash flow forecasts against those approved by the appropriate authority within each entity and performed sensitivity analysis.</p> <p>In addition, we evaluated the discount rates used in the models against available market data and considered the competency, qualification, experience and objectivity of the Group's expert.</p> <p>We also evaluated the adequacy of disclosures made in notes 13 and 18 of the financial statements, in light of the requirements of Australian Accounting Standards.</p>

### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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

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

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

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### *Responsibilities of the directors for the financial report*

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

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

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### *Auditor's responsibilities for the audit of the financial report*

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our auditor's report.

### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 13 to 30 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

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#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



PricewaterhouseCoopers



Shannon Maher  
Partner

Sydney  
18 August 2020

	Note	2020 \$'000	2019 \$'000
<b>Revenue</b>			
Sales revenue		222,186	210,337
Interest	20	302	70
<b>Total revenue</b>		<b>222,488</b>	<b>210,407</b>
Other income		364	-
<b>Total revenue and other income</b>		<b>222,852</b>	<b>210,407</b>
<b>Expenses</b>			
Materials and consumables		(116,109)	(111,228)
Employee costs		(35,249)	(31,643)
Advertising and promotions		(20,100)	(21,189)
Cartage and freight		(5,873)	(7,010)
Third party warehousing		(2,262)	(2,237)
Rental expenses		(353)	(4,311)
Depreciation		(4,418)	(1,475)
Amortisation of intangibles		(479)	(653)
Impairment of intangible assets	3,16	(8,517)	-
Other expenses		(10,881)	(10,246)
Borrowing costs	20	(1,455)	(956)
Share of net loss of joint ventures accounted for using the equity method	18	(3,894)	(479)
<b>Profit before income tax</b>		<b>13,262</b>	<b>18,980</b>
Income tax expense	6	(7,200)	(5,259)
<b>Profit for the year after tax</b>		<b>6,062</b>	<b>13,721</b>

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

	Note	2020 \$'000	2019 \$'000
<b>Profit for the year</b>		<b>6,062</b>	<b>13,721</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges	24	(1,178)	(1,138)
Exchange differences on translation of foreign operations	24	52	490
Income tax benefit relating to these items	24	349	328
<b>Other comprehensive income for the year</b>		<b>(777)</b>	<b>(320)</b>
<b>Total comprehensive income for the year</b>		<b>5,285</b>	<b>13,401</b>
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings / (loss) per share	29	5.7	13.0
Diluted earnings / (loss) per share	29	5.7	13.0

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

	Note	2020 \$'000	2019 \$'000
<b>Current assets</b>			
Cash and cash equivalents	8	7,149	10,472
Trade and other receivables	9	46,695	31,877
Inventories	10	47,086	36,688
Derivative financial instruments	11	-	797
Financial asset at fair value through profit or loss	12	-	2,934
<b>Total current assets</b>		<b>100,930</b>	<b>82,768</b>
<b>Non-current assets</b>			
Financial assets at fair value through other comprehensive income	13	6,000	-
Property, plant and equipment	14	6,259	5,930
Right-of-use assets	15	5,034	-
Other receivables		307	-
Intangible assets	16	64,713	73,973
Deferred tax assets	17	189	86
Loan receivable from joint ventures	18	1,457	1,570
Investment in joint ventures	18	1,909	716
<b>Total non-current assets</b>		<b>85,868</b>	<b>82,275</b>
<b>Total assets</b>		<b>186,798</b>	<b>165,043</b>
<b>Current liabilities</b>			
Trade and other payables	19	49,858	32,219
Borrowings	20	-	1,667
Lease liabilities		4,507	-
Provisions	21	7,910	6,098
Derivative financial instruments	11	570	234
Current tax liabilities		4,291	2,506
<b>Total current liabilities</b>		<b>67,136</b>	<b>42,724</b>
<b>Non-current liabilities</b>			
Borrowings	20	16,377	16,269
Lease liabilities		3,785	-
Provisions	21	732	709
Deferred tax liabilities	22	6,718	8,813
Derivative financial instruments	11	45	-
Contingent consideration	18	1,776	-
<b>Total non-current liabilities</b>		<b>29,433</b>	<b>25,791</b>
<b>Total liabilities</b>		<b>96,569</b>	<b>68,515</b>
<b>Net assets</b>		<b>90,229</b>	<b>96,528</b>
<b>Equity</b>			
Contributed equity	23	159,444	157,751
Reserves	24	4,342	4,674
Accumulated losses	24	(73,557)	(65,897)
<b>Total equity</b>		<b>90,229</b>	<b>96,528</b>

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

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 30 June 2019</b>		<b>157,751</b>	<b>4,674</b>	<b>(65,897)</b>	<b>96,528</b>
Adoption of new AASB 16 Leases	1 (b)	-	-	(3,061)	(3,061)
<b>Balance at 1 July 2019</b>		<b>157,751</b>	<b>4,674</b>	<b>(68,958)</b>	<b>93,467</b>
Profit for the year		-	-	6,062	<b>6,062</b>
Other comprehensive income		-	(777)	-	(777)
<b>Total comprehensive income</b>		<b>-</b>	<b>(777)</b>	<b>6,062</b>	<b>5,285</b>
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	23	1,480	-	-	<b>1,480</b>
Dividends provided for or paid	4	-	-	(10,661)	<b>(10,661)</b>
Shares vested and transferred to employees	23	213	(213)	-	-
Share-based payment transactions with employees	25	-	658	-	<b>658</b>
<b>Total transactions with shareholders</b>		<b>1,693</b>	<b>445</b>	<b>(10,661)</b>	<b>(8,523)</b>
<b>Balance at 30 June 2020</b>		<b>159,444</b>	<b>4,342</b>	<b>(73,557)</b>	<b>90,229</b>
	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 1 July 2018</b>		<b>155,882</b>	<b>4,828</b>	<b>(70,690)</b>	<b>90,020</b>
Profit for the year		-	-	13,721	<b>13,721</b>
Other comprehensive income		-	(320)	-	(320)
<b>Total comprehensive income</b>		<b>-</b>	<b>(320)</b>	<b>13,721</b>	<b>13,401</b>
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	23	1,869	-	-	<b>1,869</b>
Dividends provided for or paid	4	-	-	(8,928)	<b>(8,928)</b>
Share-based payment transactions with employees	25	-	166	-	<b>166</b>
<b>Total transactions with shareholders</b>		<b>1,869</b>	<b>166</b>	<b>(8,928)</b>	<b>(6,893)</b>
<b>Balance at 30 June 2019</b>		<b>157,751</b>	<b>4,674</b>	<b>(65,897)</b>	<b>96,528</b>

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

	Note	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers, inclusive of GST		233,863	240,222
Payments to suppliers and employees, inclusive of GST		(207,352)	(214,376)
Interest received		63	30
Interest and borrowing costs paid		(1,291)	(890)
Income taxes paid		(5,951)	(5,208)
<b>Net cash inflows from operating activities</b>	33	<b>19,332</b>	<b>19,778</b>
<b>Cash flows from investing activities</b>			
Payments for financial assets at fair value through OCI		(3,000)	-
Payments for purchase of property, plant and equipment		(1,745)	(4,119)
Payments for purchase of other intangible assets		(71)	(643)
Payments for acquisition of joint ventures		(630)	(1,158)
Loan to joint ventures		(2,698)	(1,529)
Payments for convertible note		-	(3,000)
<b>Net cash (outflows) from investing activities</b>		<b>(8,144)</b>	<b>(10,449)</b>
<b>Cash flows from financing activities</b>			
Share issue transaction costs	23	(23)	(10)
Proceeds from borrowings		61,775	62,982
Repayment of borrowings		(63,334)	(63,500)
Repayment of lease liabilities		(3,767)	-
Dividends paid		(9,159)	(7,048)
<b>Net cash outflows from financing activities</b>		<b>(14,508)</b>	<b>(7,576)</b>
<b>Net (decrease)/increase in cash held</b>		<b>(3,320)</b>	1,753
Cash at beginning of financial year		10,472	8,607
Effects of exchange rate changes		(3)	112
<b>Cash held at end of financial year</b>	8	<b>7,149</b>	<b>10,472</b>

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

## 1. Summary of significant accounting policies

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

### (a) Basis of preparation

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

#### *Compliance with IFRS*

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

#### *Historical cost convention*

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

#### *New and amended standards*

The group has applied the new AASB 16 *Leases* for the first time for the annual reporting period commencing 1 July 2019. The impact of the adoption of the new AASB 16 *Leases* and new accounting policies are disclosed in Note 1(b) below.

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### (b) Changes in accounting policies

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

#### *AASB 16 Leases*

The Group adopted the standard using the modified transition approach which means that:

- ▶ The cumulative impact of adoption has been recognised in retained earnings as of 1 July 2019; and
- ▶ The comparatives have not been restated as follows:

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

**1. Summary of significant accounting policies (continued)****(b) Changes in accounting policies (continued)***AASB 16 Leases (continued)**(i) Practical expedients applied*

The Group has used the following practical expedients permitted by the standard:

- ▶ Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- ▶ Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019;
- ▶ Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- ▶ Excluding initial transaction costs for the measurement of the right-of-use asset at the date of initial application;
- ▶ Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- ▶ The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

*(ii) Measurement of lease liabilities*

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

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

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

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

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

Reconciliation of lease commitments as at 30 June 2019 to lease liabilities recognised as at 1 July 2019:

	<b>2019</b>
	<b>\$'000</b>
<b>Operating lease commitments disclosed as at 30 June 2019</b>	<b>13,589</b>
Discounted at the Group's incremental borrowing rate of at the date of initial application	(998)
(Less): short-term leases not recognised as a liability	(99)
(Less): low-value leases not recognised as a liability	(4)
(Less): contracts reassessed as service agreements	(1,459)
<b>Lease liabilities recognised as at 1 July 2019</b>	<b>11,029</b>
Of which are:	
Current lease liabilities	<b>3,910</b>
Non-current lease liabilities	<b>7,119</b>

*(iii) Measurement of right-of-use assets*

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

## 1. Summary of significant accounting policies (continued)

### (b) Changes in accounting policies (continued)

#### *AASB 16 Leases (continued)*

##### *(iv) Lease term*

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

### (c) Principles of consolidation

#### *Subsidiaries*

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

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

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

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

#### *Changes in ownership interests*

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

#### *Joint arrangements*

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

#### *Equity method*

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

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

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

### (d) Segment reporting

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

## 1. Summary of significant accounting policies (continued)

### (e) Foreign currency translation

#### *Functional and presentation currency*

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

#### *Transactions and balances*

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

#### *Group companies*

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

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

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

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

### (f) Revenue recognition

#### *Sales revenue*

The Group markets and distributes Health, Wellness and Beauty products. Sales are recognised at a point in time when the control of the products has transferred, being when the products are delivered to the customer, or when the customer has directed the Group to warehouse finished goods on its behalf, with the risks of control and ownership transferring to the customer. The customer has full discretion over the price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered to the specific location, the risks of obsolescence and loss have been transferred to the customer, and the Group has objective evidence that all criteria for acceptance have been satisfied.

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

A receivable is recognised when the goods are delivered to the customer, or when the customer directs the Group to warehouse finished goods on its behalf, with the risks of control and ownership transferring to the customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

## 1. Summary of significant accounting policies (continued)

### (f) Revenue recognition (continued)

#### *Accounting for refunds*

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

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

#### *Other income*

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

#### *Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

### (g) Income tax

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

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

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

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

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

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

#### *Investment allowances*

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

## 1. Summary of significant accounting policies (continued)

### (g) Income tax (continued)

#### *Tax consolidation legislation*

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

### (h) Leases

The following is the accounting policy effective 1 July 2019 in compliance with AASB16 *Leases*. Please refer to the FY19 4E for prior period accounting policy.

#### *Lease contracts*

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 12 months to 20 years, but may have extension options. Extension and termination options are included in a number of property and equipment leases across the group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

#### *Lease liabilities*

Lease liabilities are initially measured on a present value basis of the following lease payments:

- ▶ Fixed payments less any lease incentives receivable; and
- ▶ Variable lease payments based on a rate initially measured at the commencement date, such as CPI.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the Group's incremental borrowing rate is used, being the rate that an individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

#### *Right-of-use assets*

Right-of-use assets are measured at present value comprising the following:

- ▶ The amount of the initial measurement of lease liability;
- ▶ Any lease payments made at or before the commencement date less any lease incentives received;
- ▶ Any initial direct costs; and
- ▶ Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

#### *Short term leases*

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

## 1. Summary of significant accounting policies (continued)

### (i) Business combinations

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

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

### (j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

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

### (k) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits at call which are readily convertible to cash on hand and are used in the cash management function on a day-to-day basis net of outstanding bank overdrafts. Bank overdrafts, if any, are shown within borrowings in current liabilities in the balance sheet.

### (l) Trade receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

### (m) Inventories

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

## 1. Summary of significant accounting policies (continued)

### (n) Non-current assets, or disposal groups, held for sale and discontinued operations

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

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

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

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

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

### (o) Investments and other financial assets

#### (i) Classification

The Group classifies its financial assets in the following measurement categories:

- ▶ Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- ▶ Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

#### (ii) Financial assets at fair value through profit or loss

The Group classifies the following financial assets at fair value through profit or loss:

- ▶ Debt investments that do not qualify for measurement at either amortised cost or at fair value through other comprehensive income;
- ▶ Equity investments that are held for trading; and
- ▶ Equity investments for which the entity has not elected to recognise fair value gains and losses through other comprehensive income.

#### (iii) Financial assets at fair value through other comprehensive income

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

## 1. Summary of significant accounting policies (continued)

### (o) Investments and other financial assets (continued)

#### *(iv) Other financial assets at amortised cost*

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- ▶ The asset is held within a business model with the objective of collecting the contractual cash flows; and
- ▶ The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Financial assets at amortised cost are included in receivables in the balance sheet.

#### *(v) Impairment*

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### (p) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

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

#### *Cash flow hedges that qualify for hedge accounting*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within finance costs.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the option contract as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve within equity. The changes in the time value of the option contracts that relate to the hedged item are recognised within other comprehensive income in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

## 1. Summary of significant accounting policies (continued)

### (p) Derivatives and hedging activities (continued)

#### *Cash flow hedges that qualify for hedge accounting (continued)*

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- ▶ Gain or loss relating to the effective portion of the intrinsic value of option contracts where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred aligned time value of the option contracts are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- ▶ Gain or loss relating to the effective portion of the spot component of forward contracts where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred aligned forward points are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.
- ▶ The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance cost' at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remain in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Hedge ineffectiveness is recognised in profit or loss within finance cost.

### (q) Fair value estimation

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

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

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

### (r) Property, plant and equipment

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

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

Depreciation on assets is calculated using the straight-line method to allocate their net cost over their estimated useful lives.

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

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

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

## 1. Summary of significant accounting policies (continued)

### (s) Intangible assets

#### (i) Goodwill

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

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

#### (ii) Brand names

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

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

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

#### (iii) IT development and software

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

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

#### (iv) Research and development

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

### (t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which remain unpaid. These amounts are unsecured and are normally settled within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

## 1. Summary of significant accounting policies (continued)

### (u) Provisions

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

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

### (v) Employee benefits

#### (i) Short-term obligations

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

#### (ii) Other long-term employee benefit obligations

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

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

#### (iii) Bonus plans

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

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

#### (iv) Superannuation

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

#### (v) Termination benefits

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

#### (vi) Employee benefit on-costs

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

**1. Summary of significant accounting policies (continued)****(v) Employee benefits (continued)***(vii) Share-based payments*

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

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

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

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

**(w) Contributed equity and dividends***(i) Contributed equity*

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

*(ii) Dividends*

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

**(x) Earnings per share***(i) Basic earnings per share*

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of McPherson's Limited by the weighted average number of ordinary shares outstanding during the financial year (refer to Note 29).

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the basic earnings per share by taking into account all dilutive potential ordinary shares arising from commencement rights granted to the Group's Managing Director and estimated number of shares to be issued under the Employee Share Scheme (refer to Note 29).

**(y) Borrowings and borrowing costs**

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

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

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

Borrowing costs are expensed as incurred.

## 1. Summary of significant accounting policies (continued)

### (z) Goods and Services Tax (GST)

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

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

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

### (aa) Rounding of amounts

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

### (ab) Parent entity financial information

The financial information for the parent entity, McPherson's Limited, disclosed in Note 35 has been prepared on the same basis as the consolidated financial statements, except as set out below.

#### *Investments in subsidiaries*

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

### (ac) Critical accounting estimates and assumptions

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

#### *Estimated recoverable amount of goodwill and brand names with an indefinite useful life*

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

#### *Provision for stock obsolescence*

Inventories are valued at the lower of cost and net realisable value. Estimates are required to be made in relation to the recoverable amount of inventory. These estimates are based on projected sales volumes and sell prices determined using current information and past experience. Estimates of net realisable values for the excess volumes are made and provisions recognised where necessary.

#### *Investments in joint ventures*

The recoverability of the investments in joint ventures and receivables from joint ventures is determined based on the net asset position of the joint ventures, or a value-in-use calculation should the net asset position of the joint venture not exceed the carrying amount of investments in joint ventures and receivables from joint ventures.

The value-in-use calculations are based on cash flow projections based on financial budgets covering a two-year period. Cash flows beyond the projected period are extrapolated using estimated growth rates. In performing the value-in-use calculations for the joint ventures, the Group has applied a post-tax discount rate to discount the forecast future attributable post-tax cash flows.

### (ad) Reclassification

Certain comparative amounts have been reclassified to conform with the current year's presentation to better reflect the nature of the financial position and performance of the Group.

## 2. Financial risk management

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

Financial risk management is predominantly controlled by a central treasury function under policies approved by the Board of Directors.

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

### Foreign exchange risk

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

### Interest rate risk

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

### Credit risk

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

### Liquidity risk

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

The Group holds the following financial instruments:

	Note	2020 \$'000	2019 \$'000
<b>Financial assets</b>			
Cash and cash equivalents	8	7,149	10,472
Trade and other receivables	9	46,695	31,877
Derivatives financial instruments	11	-	797
Financial assets at fair value through profit or loss	12	-	2,934
Financial assets at fair value through other comprehensive income	13	6,000	-
Loan receivable from joint ventures	18(d)	1,457	1,570
<b>Total financial assets</b>		<b>61,301</b>	<b>47,650</b>
<b>Financial liabilities</b>			
Trade and other payables	19	49,858	32,219
Borrowings	20	16,377	17,936
Lease liabilities		8,292	-
Derivatives financial instruments	11	615	234
Contingent consideration	18	1,776	-
<b>Total financial liabilities</b>		<b>76,918</b>	<b>50,389</b>

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

## 2. Financial risk management (continued)

### (a) Foreign exchange risk

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

The Board's foreign exchange risk management policy is to hedge 100% of anticipated cash flows, mainly inventory purchases in USD, for twelve months. At balance date, 100% (2019: 100%) of projected USD purchases qualified as "highly probable" forecast transactions for hedge accounting purposes. The Group also hedges material exposures arising in foreign currencies other than USD. The Group uses a mixture of foreign currency options and forward exchange contracts to hedge its exposures to foreign currency. The weighted average hedged rate for the AUD/USD hedges the Group had in place at 30 June 2020 was 0.6590 (2019: 0.7023).

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

A\$'000	USD	EUR	GBP	HKD	AUD	CNY
<b>30 June 2020 (Group)</b>						
Trade receivables	672	88	-	-	-	-
Trade payables	55	355	153	106	6	931
Forward foreign exchange contracts - buy foreign currency	31,698	-	-	-	-	-
Foreign currency options - buy foreign currency	35,628	-	-	-	-	-
<b>30 June 2019 (Group)</b>						
Trade receivables	595	51	43	-	7	6
Trade payables	230	194	74	2,202	64	14
Forward foreign exchange contracts - buy foreign currency	32,389	-	-	-	-	-
Foreign currency options - buy foreign currency	33,224	-	-	-	-	-

#### *Group sensitivity*

Based on the financial instruments held at 30 June 2020, had the Australian dollar weakened/strengthened by 5% against other foreign currencies at that date, with all other variables held constant, it is estimated that equity would have been \$905,443 higher / \$(1,348,409) lower (2019: \$1,648,153 higher / \$(1,265,789) lower), arising from forward foreign exchange contracts and foreign currency options designated as cash flow hedges. The Group's exposure to unhedged amounts is not material.

### (b) Interest rate risk

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

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

At 30 June 2020, the Group's debt at variable rates are:

	<b>Weighted average interest rate</b>	<b>Balance \$'000</b>	<b>% of total loans</b>
<b>2020</b>			
Bank loans at variable rate	1.1%	16,667	100%
Interest rate swaps (notional principal amount)	1.3%	(15,000)	
<b>Net exposure to cash flow interest rate risk</b>		<b>1,667</b>	
<b>2019</b>			
Bank loans at variable rate	2.2%	18,000	100%
<b>Net exposure to cash flow interest rate risk</b>		<b>18,000</b>	

**(c) Credit risk**

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

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

For derivative financial instruments, the Board determines and reviews on a regular basis the coverage required by the Group. The Group uses the major Australian banks as counterparties for most of the Group's derivative instruments. Derivatives entered into by foreign subsidiaries also use the major banks from within that country. Refer to Notes 9 and 11 for additional information regarding receivables and credit risk exposure.

**Trade receivables**

The loss allowance provision as at 30 June 2020 is determined as follows. The expected credit losses below also incorporate forward looking information.

<b>2020 \$'000</b>	<b>Neither past due nor impaired</b>	<b>Less than 30 days</b>	<b>30 to 59 days</b>	<b>60 to 89 days</b>	<b>90 to 119 days</b>	<b>120 days or more</b>	<b>Total</b>
Gross carrying amount	31,895	9,781	769	247	187	134	<b>43,013</b>
Loss allowance provision	-	-	-	-	-	99	<b>99</b>
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	74.1%	<b>0.2%</b>

**Credit risk concentration**

Two external customers represent respectively \$8,499,729 (2019: \$8,657,440) and \$14,688,687 (2019: \$4,454,838) of the closing receivables balance. These debtor balances are in relation to the Australian business.

## 2. Financial risk management (continued)

## (d) Liquidity risk

	2020 \$'000	2019 \$'000
<b>Financing Arrangements</b>		
The Group has access to the following undrawn borrowing facilities at the end of the reporting period:		
<i>Unused at balance date at floating rate</i>		
Bank loans expiring within one year	-	-
Bank loans expiring beyond one year	33,334	27,000
<b>Total undrawn borrowing facilities</b>	<b>33,334</b>	<b>27,000</b>

Refer to Note 20 for further information regarding the financing facilities available to the Group.

*Maturity profile of the Group's borrowings*

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

	Less than 1 Year \$'000	Between 1 & 2 Years \$'000	Between 2 & 3 years \$'000	Between 4&6 years \$'000	Total Contractual Cash Flows \$'000	Carrying Amount \$'000
<b>30 June 2020</b>						
<b>Non-derivatives</b>						
Payables	49,858	-	-	-	49,858	49,858
Borrowings	183	183	16,850	-	17,216	16,377
Lease liabilities	4,507	3,486	268	214	8,475	8,292
<b>Total non-derivative financial liabilities</b>	<b>54,548</b>	<b>3,669</b>	<b>17,118</b>	<b>214</b>	<b>75,549</b>	<b>74,527</b>
<b>Derivatives</b>						
Forward foreign exchange contracts – inflow	(31,698)	-	-	-	(31,698)	(31,698)
Forward foreign exchange contracts – outflow	31,969	-	-	-	31,969	31,969
	<b>271</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>271</b>	<b>271</b>
Foreign currency options	279	-	-	-	279	279
Interest rate contracts	20	24	21	-	65	65
<b>Total derivative financial liabilities</b>	<b>570</b>	<b>24</b>	<b>21</b>	<b>-</b>	<b>615</b>	<b>615</b>
<b>30 June 2019</b>						
<b>Non-derivatives</b>						
Payables	32,219	-	-	-	32,219	32,220
Borrowings	2,053	16,397	-	-	18,450	17,936
<b>Total non-derivative financial liabilities</b>	<b>34,272</b>	<b>16,397</b>	<b>-</b>	<b>-</b>	<b>50,669</b>	<b>50,156</b>

## 2. Financial risk management (continued)

### (e) Fair value measurement of financial instruments

The following financial instruments held by the Group were measured and recognised at fair value at 30 June 2020 and 30 June 2019 on a recurring basis:

Recurring fair value measurements	30 June 2020				30 June 2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value</b>								
Derivative financial instruments	-	-	-	-	-	797	-	797
Financial assets through OCI	-	-	6,000	6,000	-	-	-	-
Financial asset through profit or loss	-	-	-	-	-	-	2,934	2,934
<b>Total financial assets at fair value</b>	<b>-</b>	<b>-</b>	<b>6,000</b>	<b>6,000</b>	<b>-</b>	<b>797</b>	<b>2,934</b>	<b>3,731</b>

Recurring fair value measurements	30 June 2020				30 June 2019			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities at fair value</b>								
Derivative financial instruments	-	(615)	-	(615)	-	(234)	-	(234)
<b>Total financial liabilities at fair value</b>	<b>-</b>	<b>(615)</b>	<b>-</b>	<b>(615)</b>	<b>-</b>	<b>(234)</b>	<b>-</b>	<b>(234)</b>

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

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

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

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

The Group holds level 2 and level 3 instruments as at 30 June 2020.

#### *Level 2 instruments*

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

#### *Level 3 instruments*

The Group's Financial Assets at Fair Value through OCI, being the unlisted equity securities of Aware Environmental Limited, are classified as Level 3 as the timing of cash flows and discount rates are significant non-observable inputs.

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

The unobservable inputs into the valuation of the Group's Financial Assets at Fair Value through OCI are determined based on the best information available, including the Group's own assessment of the assumptions that market participants would use in pricing the asset.

The Group calculated the fair value of its Financial Assets at Fair Value through OCI using a discounted cash flow to determine the fair value of its Financial Assets at Fair Value through OCI.

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

	30 June 2020		30 June 2019	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
Opening balance	2,934	-	-	-
Acquisitions	3,000	-	4,138	-
Unrecognised gain on acquisition	-	-	(1,138)	-
Fair value gains / (losses)	66	-	14	-
Maturities, disposals and interest	-	-	(80)	-
Transfer to other categories	-	-	-	-
Closing balance	6,000	-	2,934	-

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

	Fair value		Significant non-observable inputs	Range of inputs		Reasonable change in non-observable inputs & impact to fair value
	30 June 2020 \$'000	30 June 2019 \$'000		30 June 2020	30 June 2019	
Financial Assets at Fair Value through OCI	6,000	-	Discount rate	11.8%	-	The fair value of the investment would increase to \$11,100,000 if the discount rate decreases by 1% and would decrease to \$8,791,000 if the discount rate increases by 1%.
Financial Assets at Fair Value through Profit or Loss	-	2,934	Conversion rate	-	\$0.60 to \$1.00 per convertible note	The fair value of the conversion option, embedded in the Financial Asset at Fair Value through Profit or Loss, would increase if the conversion rate increases.  The fair value of the conversion option amounts to approximately \$61,000 if the conversion rate is \$0.60, per convertible note and approximately \$2,000,000 if the conversion rate is \$1.00 per convertible note.

As at 30 June 2019, the Group's Financial Assets at Fair Value through Profit or Loss, being the convertible notes with Aware Environmental Limited, were classified as Level 3 as the timing of cash flows, discount rates, conversion scenario, volatility and dividend yield were significant non-observable inputs. These convertible notes were converted into shares in Aware Environmental Limited on 11 October 2019, which are classified as Financial Assets through Other Comprehensive Income as at 30 June 2020.

**3. Significant Items**

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

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
(i) Impairment of A'kin and Moosehead brand names	<b>8,517</b>	-
Less applicable income tax benefit	<b>(358)</b>	-
	<b>8,159</b>	-
(ii) Impairment of investment and shareholder loan with the Kotia joint venture	<b>204</b>	-
Less applicable income tax benefit	<b>(61)</b>	-
	<b>143</b>	-
(iii) Share of net loss from the Kotia joint venture relating to the impairment of goodwill and the release of earn out liability	<b>1,972</b>	-
Less applicable income tax benefit	-	-
	<b>1,972</b>	-
<b>Total significant items before</b>	<b>10,693</b>	-
<b>Less applicable income tax benefits</b>	<b>(419)</b>	-
<b>Total significant items after income tax</b>	<b>10,274</b>	-

#### 4. Dividends

Details of dividends declared during the year ended 30 June 2020 are as follows:

	2020 \$'000	2019 \$'000
Final 30 June 2019 dividend of 6.0 cents per fully paid share (2018: 6.0 cents per fully paid share) fully franked at 30%	6,387	2,619
Interim 2020 ordinary dividend of 4.0 cents per fully paid share (2019: 4.0 cents per fully paid share) fully franked at 30%, and no special dividend (2019: 2.0 cents per fully paid share) fully franked at 30%	4,274	6,309
<b>Total dividends</b>	<b>10,661</b>	<b>8,928</b>
<b>Dividends not recognised at year end</b> Since the 2020 financial year end, the Directors have declared a fully franked final dividend of 7.0 cents per fully paid share (2019: 6.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 24 September 2020 but not recognised as a liability at year end.	<b>7,509</b>	6,380
<b>Franked Dividends</b> Franked dividends paid after 30 June 2020 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2020. Franking credits available for subsequent financial years based on a tax rate of 30%	<b>24,470</b>	23,245

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

#### *Dividend reinvestment plan (DRP)*

The Company's DRP continues to operate with a discount of 2.5% and will apply to the upcoming final dividend. Shareholders on the register at the record date of 7 September 2020 will be eligible for the dividend. Shareholders wishing to participate in the DRP need to have elected to do so by no later than the trading day immediately following the record date, or by 8 September 2020. Shareholders that have previously elected to participate in the DRP will continue to do so on the same basis unless a formal election to vary or cease participation is provided by 8 September 2020.

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

#### 5. Segment Information

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

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

#### *Segment revenues*

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

Revenues from continuing operations of approximately \$35,765,218 (2019: \$34,698,000) and \$37,236,925 (2019: \$30,944,000) were derived from two external customers. These revenues were attributable to the Australian segment.

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

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

	Australia \$000	New Zealand \$000	Rest of the World \$000	Inter-segment eliminations \$000	Consolidated \$000
<b>2020</b>					
Sales to external customers	207,391	8,989	5,806	-	222,186
Inter-segment sales	3,424	-	1,317	(4,741)	-
<b>Total sales revenue</b>	<b>210,815</b>	<b>8,989</b>	<b>7,123</b>	<b>(4,741)</b>	<b>222,186</b>
Other income (excluding interest)	9	118	237	-	364
<b>Total segment revenue and other income (excluding interest)</b>	<b>210,824</b>	<b>9,107</b>	<b>7,360</b>	<b>(4,741)</b>	<b>222,550</b>
EBITDA before significant items	25,085	4,842	380	-	30,307
Depreciation and amortisation expense	(4,026)	(327)	(544)	-	(4,897)
<b>Segment result before significant items</b>	<b>21,059</b>	<b>4,515</b>	<b>(164)</b>	-	<b>25,410</b>
Significant items before tax	(10,693)	-	-	-	(10,693)
<b>Segment result including significant items before tax</b>	<b>10,366</b>	<b>4,515</b>	<b>(164)</b>	-	<b>14,717</b>
Net borrowing costs					(1,455)
<b>Profit before income tax</b>					<b>13,262</b>
Income tax expense					(7,200)
<b>Profit after income tax</b>					<b>6,062</b>
<b>Segment assets</b>	<b>158,863</b>	<b>3,204</b>	<b>24,731</b>	-	<b>186,798</b>

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

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

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

	Note	2020 \$'000	2019 \$'000
Current tax		8,343	4,600
Deferred tax		(389)	1,144
(Over) / under provision in prior years		(754)	(485)
<b>Total income tax expense</b>		<b>7,200</b>	<b>5,259</b>
Deferred income tax (credit) / expense included in income tax expense comprises:			
Decrease / (increase) in deferred tax assets	17	(106)	464
Increase / (decrease) in deferred tax liabilities	22	(283)	680
<b>Total deferred tax</b>		<b>(389)</b>	<b>1,144</b>

**(b) Numerical reconciliation of income tax expense**

	2020 \$'000	2019 \$'000
Total operating profit before tax	13,262	18,980
Prima facie income tax expense at 30%	3,979	5,694
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Impairment of intangible assets	2,197	-
Tax rate differences in overseas entities	58	(163)
Share-based payments expense	201	52
(Over) / under provision in prior years	(754)	(485)
Share of loss from investments	1,168	96
Other	351	65
<b>Income tax expense</b>	<b>7,200</b>	<b>5,259</b>

**(c) Amounts recognised directly in equity**

	Note	2020 \$'000	2019 \$'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity:			
Deferred tax assets	17	(12)	(4)

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

	Note	2020 \$'000	2019 \$'000
Cash flow hedges	17, 22	349	328

**7. Key management personnel**

	2020 \$	2019 \$
<b>Key management personnel compensation</b>		
Short-term employee benefits	2,630,595	2,162,979
Post-employment benefits	120,445	110,988
Long-term benefits	23,401	26,966
Share-based payments	337,949	71,227
<b>Total key management personnel compensation</b>	<b>3,112,390</b>	<b>2,372,160</b>

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

*Loans to key management personnel*

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

*Other transactions with key management personnel*

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

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

- ▶ On 10 October 2019, MCP and Aware Environmental Limited (Aware) executed a Subscription Agreement and a Deed of Amendment, which set the terms under which:
  - ▶ MCP converted its 3,000,000 convertible notes at a conversion price of \$0.60 per share into 5,000,000 ordinary shares in Aware; and
  - ▶ MCP subscribed for 5,000,000 shares in Aware at a subscription price of \$0.60 per share.
- ▶ The Group's 10,000,000 shares represent 10.7% of the capital of Aware at 30 June 2020.
- ▶ Mr. Geoffrey Pearce is a Director and a significant shareholder of Aware Environmental Limited. The above transactions were conducted on normal commercial arm's length terms and entered into in order to provide a more robust and reliable basis of skin care product supply to McPherson's.

**8. Cash and cash equivalents**

	2020 \$'000	2019 \$'000
Cash on hand	7	7
Cash at bank and on deposit (at call)	7,142	10,465
<b>Total cash and cash equivalents</b>	<b>7,149</b>	<b>10,472</b>

**9. Trade and other receivables**

	2020 \$'000	2019 \$'000
Trade receivables	43,013	29,430
Provision for impairment	(99)	(115)
<b>Trade receivables, net of impairment</b>	<b>42,914</b>	<b>29,315</b>
Other receivables and prepayments	3,781	2,562
<b>Total trade and other receivables</b>	<b>46,695</b>	<b>31,877</b>

	2020 \$'000	2019 \$'000
<b>Movements in the provision for impairment of trade receivables</b>		
Balance at 1 July	(115)	(121)
Reversal of provisions for impairment	16	2
Net receivables written off as uncollectible	-	5
Foreign exchange	-	(1)
<b>Total provision for impairment</b>	<b>(99)</b>	<b>(115)</b>

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

**Credit risk**

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

	2020 \$'000	2019 \$'000
Neither past due nor impaired	31,895	25,250
Past due, but not impaired:		
▶ Less than 30 days	9,781	2,977
▶ 30 to 59 days	769	752
▶ 60 to 89 days	247	240
▶ 90 to 119 days	187	18
▶ 120 days or more	134	193
<b>Gross carrying amount</b>	<b>43,013</b>	<b>29,430</b>
Provision for impairment	(99)	(115)
<b>Net carrying amount</b>	<b>42,914</b>	<b>29,315</b>

**Credit risk concentration**

Two external customers represent \$14,688,687 (2019: \$8,657,440) and \$8,499,729 (2019: \$4,454,838) respectively of the closing receivables balance. These debtor balances are in relation to the Australian business.

**10. Inventories**

	2020 \$'000	2019 \$'000
Raw materials	9,013	5,180
Finished goods	41,821	34,971
<b>Total inventories</b>	<b>50,834</b>	<b>40,151</b>
Provision for inventory obsolescence	(3,748)	(3,463)
<b>Total inventories, net of obsolescence provision</b>	<b>47,086</b>	<b>36,688</b>

**11. Derivative financial instruments**

Derivatives are only used for economic hedging purposes and not as trading or speculative instruments.

	2020 \$'000	2019 \$'000
<b>Current derivative financial instrument assets</b>		
Forward foreign exchange contracts – cash flow hedges	-	797
<b>Total current derivative financial instrument assets</b>	<b>-</b>	<b>797</b>
<b>Current derivative financial instrument liabilities</b>		
Interest rate swaps – cash flow hedges	20	-
Forward foreign exchange contracts – cash flow hedges	271	-
Foreign currency options – cash flow hedges	279	234
<b>Total current derivative financial instrument liabilities</b>	<b>570</b>	<b>234</b>
<b>Non-current liabilities</b>		
Interest rate swaps – cash flow hedges	45	-

**Derivative financial instruments used by the Group**

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note 2). For information about the methods and assumptions used in determining the fair value of derivatives please refer to Note 2(e).

*Forward foreign exchange contracts – cash flow hedges*

The Group enters into forward foreign exchange contracts to hedge a portion of highly probable forecast purchases denominated in foreign currencies, predominantly in USD. The terms of these commitments are twelve months or less.

*Foreign currency options – cash flow hedges*

The Group has also entered into foreign currency option contracts to partially hedge a portion of anticipated USD purchases. At balance date, the outstanding foreign currency option contracts cover the period from July 2020 to June 2021.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

*Interest rate swaps – cash flow hedges*

The Group entered into an interest rate swap contract maturing in June 2023 to partially restrict the Group's interest rate exposure. The interest rate swap contracts are settled on a quarterly basis and compared with the 90-day Bank Bill Swap Bid Rate (BBSY).

**12. Financial assets at fair value through profit or loss**

	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Convertible note receivable – Aware Environmental Limited	-	2,934

The following gains were recognised in profit or loss:

	2020 \$'000	2019 \$'000
Fair value gain	66	14

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

**13. Financial assets at fair value through other comprehensive income**

	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Unlisted equity securities – Aware Environmental Limited	6,000	-

There were no gains or losses recognised in other comprehensive income in relation to unlisted equity securities in 2020 (2019: nil).

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

**14. Property, plant and equipment**

	2020 \$'000	2019 \$'000
<b><i>Leasehold improvements</i></b>		
At cost	339	292
Accumulated depreciation	(321)	(269)
<b>Total leasehold improvements</b>	<b>18</b>	<b>23</b>
<b><i>Plant and equipment</i></b>		
At cost	37,041	35,080
Accumulated depreciation	(30,800)	(29,173)
<b>Total plant and equipment</b>	<b>6,241</b>	<b>5,907</b>
<b>Total property, plant and equipment</b>	<b>6,259</b>	<b>5,930</b>

**14. Property, plant and equipment (continued)****(a) Reconciliations**

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
<b>Carrying amount at 1 July 2018</b>	<b>44</b>	<b>3,224</b>	<b>3,268</b>
Additions	-	4,119	4,119
Disposals	-	-	-
Depreciation expense	(8)	(1,467)	(1,475)
Foreign currency exchange differences	(13)	31	18
<b>Carrying amount at 30 June 2019</b>	<b>23</b>	<b>5,907</b>	<b>5,930</b>
Additions	-	1,745	1,745
Disposals	-	-	-
Transfer from other intangibles	-	335	335
Depreciation expense	(5)	(1,776)	(1,781)
Foreign currency exchange differences	-	30	30
<b>Carrying amount at 30 June 2020</b>	<b>18</b>	<b>6,241</b>	<b>6,259</b>

**(b) Non-current assets pledged as security**

Refer to Note 20 for information on non-current assets pledged as security by the parent entity and certain controlled entities.

**15. Leases****(a) Right-of-use assets**

	2020 \$'000	1 July 2019 \$'000
Buildings	3,651	4,776
Equipment and Vehicles	1,383	1,891
<b>Total right-of-use assets</b>	<b>5,034</b>	<b>6,667</b>

Additions to right-of-use assets in 2020 were \$1,004,244.

**(b) Amounts recognised in the statement of comprehensive income**

	2020 \$'000	2019 \$'000
<b>Depreciation charge of right-of-use assets</b>		
Buildings	(1,928)	-
Equipment and Vehicles	(709)	-
<b>Total depreciation charge of right-of-use assets</b>	<b>(2,637)</b>	<b>-</b>
Expenses relating to short-term and low value leases (included in Rental Expense)	(353)	-
Interest expense (included in Borrowing Costs)	(503)	-
Cash outflow for leases	(4,275)	-

As disclosed in note 1(b), the new AASB16 *Leases* accounting standard is effective 1 July 2019 and comparatives were not restated, as allowed under the modified transition approach.

**16. Intangible assets**

	2020 \$'000	2019 \$'000
Goodwill	15,757	15,757
Brand names	48,310	56,827
Other intangibles	7,662	8,439
Accumulated amortisation	(7,016)	(7,050)
<b>Total other intangibles</b>	<b>646</b>	<b>1,389</b>
<b>Total intangibles</b>	<b>64,713</b>	<b>73,973</b>

**Reconciliations**

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

	Goodwill \$'000	Brand names \$'000	Other Intangibles \$'000	Total \$'000
<b>Carrying amount at 1 July 2018</b>	<b>15,674</b>	<b>56,827</b>	<b>1,399</b>	<b>73,900</b>
Additions	-	-	643	<b>643</b>
Impairment charge	-	-	-	-
Amortisation charge	-	-	(653)	<b>(653)</b>
Foreign currency exchange differences	83	-	-	<b>83</b>
<b>Carrying amount at 30 June 2019</b>	<b>15,757</b>	<b>56,827</b>	<b>1,389</b>	<b>73,973</b>
Additions	-	-	71	<b>71</b>
Impairment charge	-	(8,517)	-	<b>(8,517)</b>
Amortisation charge	-	-	(479)	<b>(479)</b>
Transfer to property, plant and equipment	-	-	(335)	<b>(335)</b>
Foreign currency exchange differences	-	-	-	-
<b>Carrying amount at 30 June 2020</b>	<b>15,757</b>	<b>48,310</b>	<b>646</b>	<b>64,713</b>

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

**Impairment Testing****Goodwill**

Goodwill is allocated to the following cash generating units:

	2020 \$'000	2019 \$'000
Australia	15,757	15,757

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

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

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

CGU	30 June 2020				30 June 2019			
	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate
Australia	2.0%	2.0%	10.0%	13.7%	2.0%	2.0%	10.0%	13.7%

In addition to the above, it is noted that the year one cash flow projection is a key assumption within the value-in-use calculation. The cash flow projections used for the year one cash flows are based on the Board approved budgets. The budgets reflect the Board's expectation of cash flows for the Australian CGU arising from profit optimisation initiatives, new product launches and the inventory rationalisation project. At 30 June 2020, the value-in-use calculation for the Australian CGU exceeded the carrying value of its net assets. The surplus amount for the Australian CGU is \$ 134,431,322 (June 2019: \$102,986,000).

*Impairment charge*

No goodwill impairment charge was recognised in 2020 (2019: nil).

*Impact of possible changes in key assumptions*

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

*Brand names*

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

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

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

	2020	2019
Estimated annual growth rates	1.0% - 15.0%	1.0% - 15.0%
Terminal year growth rates	1.0% - 3.0%	1.0% - 3.0%
Post-tax discount rates	10.0%	10.0%
Pre-tax discount rates	13.7%	13.7%

In addition to the above, it is noted that the year one cash flow projection is a key assumption within the value-in-use calculations.

At 30 June 2020, the total carrying value of brand names was \$48,311,000 (2019: \$56,827,000). The value-in-use calculations for these brand names exceeded their carrying values.

*Impairment charge*

An impairment charge of \$8,517,000 was recognised in 2020 (2019: nil) for the brands A'kin and Moosehead, which were adversely impacted by a change in consumer demand during the COVID-19 pandemic.

The Group anticipates that these challenges will persist into the medium term based on the decline in retailer scan data in the Natural Skincare and Haircare categories, and therefore impaired the entire carrying value of the A'kin and Moosehead brands as at 30 June 2020.

**16. Intangible assets (continued)***Impact of possible changes in key assumptions*

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

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

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

If the post-tax discount rate used in the value-in-use calculations was to be 0.5% higher than management's estimates, no impairment charge would arise.

**17. Deferred tax assets**

	Note	2020 \$'000	2019 \$'000
The balance comprises temporary differences attributable to:			
Employee benefits		1,665	1,416
Depreciation		954	657
Net of right-of-use assets and lease liabilities		968	-
Other		622	455
<b>Total temporary differences</b>		<b>4,209</b>	<b>2,528</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	22	(4,020)	(2,442)
<b>Net deferred tax assets</b>		<b>189</b>	<b>86</b>

*Movements*

	Note	Leases* \$'000	Employee Benefits \$'000	Depreciation \$'000	Other \$'000	Total \$'000
<b>Opening balance at 1 July 2018</b>		-	1,459	761	735	2,955
Charged to profit or loss	6	-	27	(67)	(424)	(464)
Charged to equity		-	-	-	4	4
Amortisation of transaction costs on share issues		-	-	-	(8)	(8)
Under/(over) provision in prior years		-	(69)	(37)	126	20
Foreign currency exchange differences		-	(1)	-	22	21
<b>Closing balance at 30 June 2019</b>		-	1,416	657	455	2,528
AASB16 adjustment at 1 July 2019	1(b)	1,301	-	-	-	1,301
Charged to profit or loss	6	(333)	249	219	(29)	106
Charged to equity		-	-	-	12	12
Charged to other comprehensive income		-	-	-	183	183
Amortisation of transaction costs on share issues		-	-	-	(5)	(5)
Under/(over) provision in prior years		-	-	78	6	84
Foreign currency exchange differences		-	-	-	-	-
<b>Closing balance at 30 June 2020</b>		<b>968</b>	<b>1,665</b>	<b>954</b>	<b>622</b>	<b>4,209</b>

\*Net of right-of-use assets and lease liabilities

**17. Deferred tax assets (continued)**

	2020 \$'000	2019 \$'000
Deferred tax assets to be recovered within 12 months	3,012	1,660
Deferred tax assets to be recovered after more than 12 months	1,197	868
<b>Total deferred tax assets</b>	<b>4,209</b>	<b>2,528</b>

**18. Investment in joint ventures****(a) Formation of the My Kart joint venture (Soulful)**

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

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

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

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

- ▶ Earn out payable by the Group, based on a normalised EBIT multiple of My Kart for the financial years ending 30 June 2020, 2021 and 2022. The Group recognised on acquisition date an earn out liability which amounts to \$1.8 million at 30 June 2020.
- ▶ The Group has the option to call, after 30 June 2024, the 49% interest in My Kart owned by the Soulful shareholders; and
- ▶ The Soulful shareholders has the option to put its 49% interest in My Kart to the Group after 30 June 2024.

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

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

Under the terms of the joint venture agreement:

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

**18. Investment in joint ventures (continued)****(c) Interest in joint ventures**

The following table summarises the financial information of the equity accounted investees as at 30 June 2020.

Entity	Country	% Interest	Measurement method	Carrying amount \$'000	Share of loss \$'000
Kotia Limited	New Zealand	51	Equity method	-	3,067
Sugarbaby	Australia	51	Equity method	-	373
My Kart Pty Ltd	Australia	51	Equity method	1,798	454
Dr. LeWinn's China Limited	Hong Kong	49	Equity method	111	-
				<b>1,909</b>	<b>3,894</b>

The joint ventures are private entities, for which no quoted market prices are available.

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

**Movements in carrying amount of equity accounted investments**

Opening balance

Acquisition of investment in joint ventures

Share of joint ventures' loss

Share of joint ventures' loss recognised against receivable balances

Dividends

**Carrying amount of equity accounted investments****Share of joint ventures' statement of financial position**

Current assets

Non-current assets

**Total assets**

Current liabilities

Non-current liabilities

**Total liabilities****Net assets/(liabilities)**

	2020 \$'000	2019 \$'000
Opening balance	716	-
Acquisition of investment in joint ventures	2,363	1,195
Share of joint ventures' loss	(3,894)	(479)
Share of joint ventures' loss recognised against receivable balances	2,724	-
Dividends	-	-
<b>Carrying amount of equity accounted investments</b>	<b>1,909</b>	<b>716</b>
<b>Share of joint ventures' statement of financial position</b>	<b>2020 \$'000</b>	<b>2019 \$'000</b>
Current assets	544	843
Non-current assets	3,040	2,795
<b>Total assets</b>	<b>3,584</b>	<b>3,638</b>
Current liabilities	(3,935)	(1,963)
Non-current liabilities	-	(833)
<b>Total liabilities</b>	<b>(3,935)</b>	<b>(2,796)</b>
<b>Net assets/(liabilities)</b>	<b>(351)</b>	<b>842</b>

**(d) Loan receivable from joint ventures**

The following table summarises financial information in relation to the Group's loans to the joint ventures as at 30 June 2020:

Name of entity	Loans from the Group	Carrying amount \$'000	Interest rate	Term
Kotia Limited	Shareholder loan	-	6%	The loan is not expected to be repaid within 12 months
Sugarbaby & Co Pty Ltd	Shareholder loan	530	5%	The loan is not expected to be repaid within 12 months
My Kart Pty Ltd	Shareholder loan	810	6%	The loan is not expected to be repaid within 12 months
	Working capital loan	117	-	The loan is not expected to be repaid within 12 months
<b>Total</b>		<b>1,457</b>		

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

As at 30 June 2020, the Group recognised an impairment charge of \$204,000 before tax (2019: nil) against the shareholder loan to Kotia Limited.

**19. Trade and other payables**

	2020 \$'000	2019 \$'000
Trade payables	30,043	17,445
Customer contract liabilities	13,924	9,908
Other payables	5,891	4,866
<b>Total trade and other payables</b>	<b>49,858</b>	<b>32,219</b>

**20. Borrowings**

	2020 \$'000	2019 \$'000
Bank loans – secured	-	1,667
<b>Total current borrowings</b>	<b>-</b>	<b>1,667</b>
Bank loan – secured	16,667	16,333
Debt issue costs	(290)	(64)
<b>Total non-current borrowings</b>	<b>16,377</b>	<b>16,269</b>
<b>Total borrowings</b>	<b>16,377</b>	<b>17,936</b>
	2020 \$'000	2019 \$'000
<b>Interest income from continuing operations</b>		
Interest income	302	70
<b>Borrowing costs from continuing operations</b>		
Borrowing costs	(1,391)	(933)
Amortisation of refinancing costs	(64)	(23)
<b>Total borrowing costs</b>	<b>(1,455)</b>	<b>(956)</b>
<b>Net borrowing costs</b>	<b>(1,153)</b>	<b>(886)</b>

The Group's new three-year facility, denominated in Australian dollars, has a facility limit of \$47.5 million (2019: \$41.9 million) and expires in June 2023. This facility comprises three tranches:

- ▶ \$35.0 million revolving working capital facility;
- ▶ \$10.0 million acquisition facility; and
- ▶ \$2.5 million documentary facility, covering the Group's bank guarantee and letters of credit requirements.

Drawings under the \$35.0 million working capital tranche of the facility are required to be backed by eligible trade debtor and inventory assets.

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

- ▶ Secured leverage ratio must not exceed 2.50 times;
- ▶ Interest cover ratio must be at least 3.50 times; and
- ▶ Total shareholder funds must not be less than \$70,000,000.

As at 30 June 2020, the Group was compliant with its debt covenants.

In addition to the new three-year \$47.5 million facility, the Group holds a \$5 million overdraft facility (2019: \$5 million)

**20. Borrowings (continued)***Security for borrowings*

The Group provides security to its lenders in order to access all tranches of the new debt facility. The Group facilities are secured by the following:

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

*Assets pledged as security*

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Fixed charge</b>		
Property, plant and equipment	6,167	5,824
Intangible assets	63,229	72,489
<b>Total non-current assets pledged as security</b>	<b>69,396</b>	<b>78,313</b>
The following current assets are also pledged as security:		
<b>Fixed charge</b>		
Receivables	41,882	28,162
<b>Floating charge</b>		
Cash	5,716	8,718
Inventories	46,127	35,641
Receivables	3,271	1,510
<b>Total current assets pledged as security</b>	<b>96,996</b>	<b>74,031</b>
<b>Total assets pledged as security</b>	<b>166,392</b>	<b>152,344</b>

**21. Provisions**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Provisions - current</b>		
Employee entitlements	5,538	4,678
Employee incentives	2,372	1,320
Other	-	100
<b>Total current provisions</b>	<b>7,910</b>	<b>6,098</b>
<b>Provisions – non-current</b>		
Employee entitlements	732	709

**(a) Employee entitlements**

Current employee entitlements reflect annual leave and long service leave accrued for the next 12 months. Based on past experience, the Group expects that approximately 32% of the current balance will be taken or paid within the next 12 months.

The non-current provision for employee entitlements relates to the Group's liability for long service leave beyond 12 months from balance date.

**(b) Employee incentives**

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

**21. Provisions (continued)***Movement in provisions*

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

	<b>Employee Incentives \$'000</b>	<b>Other \$'000</b>
<b>Carrying amount at 1 July 2019</b>	<b>1,320</b>	<b>100</b>
Additional provisions charged to profit or loss	2,673	-
Unused amounts reversed to profit or loss	(45)	-
Payments	(1,575)	(96)
Foreign currency exchange differences	(1)	(4)
	<hr/>	<hr/>
<b>Carrying amount at 30 June 2020</b>	<b>2,372</b>	<b>-</b>

**22. Deferred tax liabilities**

The balance comprises temporary differences attributable to:

	<b>Note</b>	<b>2020 \$'000</b>	<b>2019 \$'000</b>
Brand names		10,694	11,052
Cash flow hedges		-	166
Other		44	37
<b>Total temporary differences</b>		<hr/> <b>10,738</b>	<hr/> <b>11,255</b>
Set-off of deferred tax asset pursuant to set-off provisions	17	(4,020)	(2,442)
<b>Net deferred tax liabilities</b>		<hr/> <b>6,718</b>	<hr/> <b>8,813</b>
Deferred tax liabilities to be settled within 12 months		38	191
Deferred tax liabilities to be settled after more than 12 months		10,700	11,064
<b>Total temporary differences</b>		<hr/> <b>10,738</b>	<hr/> <b>11,255</b>

**22. Deferred tax liabilities (continued)***Movements*

	Note	Brand names \$'000	Cash Flow Hedges \$'000	Other \$'000	Total \$'000
<b>Consolidated</b>					
<b>Closing balance at 30 June 2018</b>		<b>11,067</b>	<b>450</b>	<b>18</b>	<b>11,535</b>
Debited/(Credited) to profit or loss	6	-	44	636	<b>680</b>
Charged to other comprehensive income	6	-	(328)	-	<b>(328)</b>
Under provision in prior years		(15)	-	(615)	<b>(630)</b>
Foreign exchange		-	-	(2)	<b>(2)</b>
<b>Closing balance at 30 June 2019</b>		<b>11,052</b>	<b>166</b>	<b>37</b>	<b>11,255</b>
Debited/(Credited) to profit or loss	6	(358)	-	75	<b>(283)</b>
Charged to other comprehensive income	6	-	(166)	-	<b>(166)</b>
Under provision in prior years		-	-	(71)	<b>(71)</b>
Foreign exchange		-	-	3	<b>3</b>
<b>Closing balance at 30 June 2020</b>		<b>10,694</b>	<b>-</b>	<b>44</b>	<b>10,738</b>

**23. Contributed equity**

	2020 \$'000	2019 \$'000
Issued and paid up capital:		
107,264,580 fully paid ordinary shares (June 2019: 106,329,245)	<b>159,444</b>	157,751

*Movements in ordinary share capital*

Date	Details	Number of Shares	Price \$	\$'000
<b>1 July 2018</b>	<b>Opening Balance</b>	<b>104,771,194</b>		<b>155,882</b>
	Shares issued - DRP for 30 June 2018 final dividend	368,884	1.52	560
	Shares issued - DRP for 31 December 2018 interim dividend	1,189,167	1.11	1,319
	Transaction costs associated with share issues			(14)
	Tax effect of share issue transaction costs recognised directly in equity			4
<b>30 June 2019</b>	<b>Closing Balance</b>	<b>106,329,245</b>		<b>157,751</b>
	Employee shares scheme	122,517	1.74	213
	Shares issued - DRP for 30 June 2019 final dividend	391,541	2.19	857
	Shares issued - DRP for 31 December 2019 interim dividend	371,277	1.74	646
	Performance rights conversion	50,000		-
	Transaction costs associated with share issues			(35)
	Tax effect of share issue transaction costs recognised directly in equity			12
<b>30 June 2020</b>	<b>Closing Balance</b>	<b>107,264,580</b>		<b>159,444</b>

**23. Contributed equity (continued)***Ordinary shares*

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

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

*Options and Performance Rights*

Information relating to the Group's Employee Performance Rights and options plans, including details of Performance Rights issued and outstanding at the end of the year, is set out in the Remuneration Report within the Directors' Report and within Note 25.

*Capital risk management*

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

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

One measure the Group uses to assess its capital structure is its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash assets. Total capital is calculated as net debt plus total equity.

	Note	2020 \$'000	2019 \$'000
Total borrowings	20	16,377	17,936
Less: Cash assets	8	(7,149)	(10,472)
<b>Net debt, excluding lease liabilities and right-of-use assets</b>		<b>9,228</b>	<b>7,464</b>
<b>Total equity</b>		<b>90,229</b>	<b>96,528</b>
<b>Total capital</b>		<b>99,456</b>	<b>103,992</b>
<b>Gearing ratio</b>		<b>9.3%</b>	<b>7.2%</b>

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

	Note	2020 \$'000	2019 \$'000
Hedging reserve – cash flow hedges		(321)	508
Share-based payments reserve		2,625	2,180
Foreign currency translation reserve		2,038	1,986
<b>Total reserves</b>		<b>4,342</b>	<b>4,674</b>
<b>Cash flow hedge reserve</b>			
Balance 1 July		508	1,318
Revaluation – gross		(615)	722
Deferred tax	17, 22	183	(212)
Transfer to cost of sales – gross		(563)	(1,860)
Deferred tax	17, 22	166	540
<b>Total cash flow hedge reserve</b>		<b>(321)</b>	<b>508</b>
<b>Share-based payments reserve</b>			
Balance at 1 July		2,180	2,014
Share-based payments	25	428	(39)
FY20 employee share scheme accrued during the year	25	236	205
FY19 employee share scheme issued during the year		(219)	-
<b>Total share-based payments reserve</b>		<b>2,625</b>	<b>2,180</b>
<b>Foreign currency translation reserve</b>			
Balance 1 July		1,986	1,496
Currency translation differences arising during the year		52	490
<b>Total foreign currency translation reserve</b>		<b>2,038</b>	<b>1,986</b>

**(b) Accumulated losses**

	Note	2020 \$'000	2019 \$'000
Balance 1 July		(65,897)	(70,690)
Effects from changes in accounting policy	1(b)	(3,061)	-
Profit/(Loss) after tax		6,062	13,721
Dividends provided for or paid		(10,661)	(8,928)
<b>Total accumulated losses</b>		<b>(73,557)</b>	<b>(65,897)</b>

## 24. Reserves and accumulated losses (continued)

### (c) Nature and purpose of reserves

#### *Cash flow hedge reserve*

The hedging reserve is used to record gains or losses on hedging instruments in cash flow hedges that are recognised in other comprehensive income as described in Note 1(p). Amounts are subsequently either transferred to the initial cost of inventory or reclassified to profit or loss as appropriate.

#### *Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of Performance Rights issued at grant date but not exercised or cancelled and shares estimated to be issued under the employee share scheme.

#### *Foreign currency translation reserve*

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

## 25. Share-based payments

### (a) Employee Performance Rights Plan

Long-term incentives are provided to executives to align this element of compensation with the objective of improving long-term shareholder returns. During the current year the Group continued with its Performance Rights plan (the McPherson's Limited Performance Rights Plan) to provide long-term incentives to executives. Under this plan, participants are granted Performance Rights which only vest if certain performance conditions (relating to compound annual growth in earnings per share and total shareholder return) are met and the executive is still employed by the Group at the end of the vesting period, or where not employed at the end of the vesting period is deemed to be a "good leaver" by the Board. Participation in the plan is at the discretion of the Nomination and Remuneration Committee and no individual has a contractual right to receive any guaranteed benefits. The maximum LTI opportunity for the Managing Director is \$1 million per annum and for other senior executives in 2020 is 40% of fixed remuneration.

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

Approval for the issue of Performance Rights granted to the Managing Director for the years from 2019 to 2021 was obtained under ASX Listing Rule 10.14 at the Company's 2019 Annual General Meeting.

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

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

Type of Rights	KMP	Year of Grant	Vesting Hurdles	Vesting Period
<b>Commencement Rights</b>	Managing Director	2017	To continue to be the Managing Director of the Company until 1 November 2019. These rights vested in 2020.	3 years
<b>High Level Performance Rights (HLP) and Performance Rights</b>	HLP - Managing Director	2017	Zero Rights vesting at +3.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +8.0% (or higher) Underlying EPS CAGR	3 years
	Performance Rights - Chief Financial Officer (and Company Secretary) and National Accounts Director	2018	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
<b>HLP</b>	Managing Director	2019 & 2020	Zero Rights vesting at +5.0% (or less) Underlying EPS CAGR, to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
<b>Performance Rights</b>	Chief Financial Officer (and Company Secretary) and National Accounts Director	2019 & 2020	<u>First 50% of Rights</u> Zero Rights vesting at +5.0% Underlying EPS CAGR (or less), to 100% of Rights vesting at +10.0% (or higher) Underlying EPS CAGR	3 years
			<u>Remaining 50% of Rights</u> 25% of Rights vesting at +10.0% TSR CAGR (at least), to 100% of Rights vesting at +15.0% (or higher) TSR CAGR	3 years
<b>Exceptional Level Performance Rights (ELP)</b>	Managing Director	2017 & 2018	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +25.0% TSR CAGR (or higher)	4 years
		2019 & 2020	25% of Rights vesting at +15.0% TSR CAGR (at least), to 100% of Rights vesting at +20.0% TSR CAGR (or higher)	4 years

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

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

	2020		2019	
	Average fair value at grant date	Number of rights	Average fair value at grant date	Number of rights
<b>As at 1 July</b>	<b>\$1.09</b>	<b>3,424,000</b>	\$0.88	3,255,000
Granted during the year	\$1.88	877,000	\$0.82	1,094,000
Redeemed during the year		(50,000)		-
Lapsed during the year		(512,000)		(925,000)
<b>As at 30 June</b>	<b>\$1.43</b>	<b>3,739,000</b>	<b>\$1.09</b>	<b>3,424,000</b>
<b>Vested and exercisable</b>		<b>213,000</b>		-

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

Grant date	Vesting date	Number of rights	
		30 June 2020	30 June 2019
22 September 2016	25 September 2019	-	194,000
21 November 2016	25 September 2019	213,000	581,000
21 November 2016	25 September 2020	590,000	590,000
21 September 2017	22 September 2020	294,000	294,000
21 September 2017	22 September 2020	235,000	235,000
21 September 2017	22 September 2021	436,000	436,000
25 September 2018	25 September 2021	696,000	696,000
25 September 2018	25 September 2022	398,000	398,000
25 September 2019	26 September 2022	422,000	-
18 November 2019	26 September 2022	182,000	-
18 November 2019	25 September 2023	273,000	-
<b>Total</b>		<b>3,739,000</b>	<b>3,424,000</b>

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

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

<b>Performance Rights</b>	<b>Fair value</b>
<b>Commencement Rights and HLP</b>	Independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the commencement date or grant date less the present value of expected dividends forgone prior to vesting
<b>ELP</b>	Independently valued at grant date using the assumptions underlying the Black-Scholes methodology to produce a simulation model which allows for the incorporation of the Total Shareholder Return (TSR) hurdle that must be met before these rights vest  Consequently, in addition to being sensitive to the dividend yield, the ELP Rights are also sensitive to market volatility and the initial TSR, with the risk free rate as a further valuation input
<b>Other Performance Rights</b>	<p><b>Financial year of grant before 2019</b> Independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the grant date less the present value of expected dividends forgone prior to vesting</p> <p><b>Financial year of grant 2019 onwards</b> EPS CAGR element independently valued at grant date, applying a discounted cash flow methodology, using the market price of the related shares at the grant date less the present value of expected dividends forgone prior to vesting</p> <p>TSR CAGR element independently valued at grant date using the assumptions underlying the Black-Scholes methodology to produce a simulation model which allows for the incorporation of the Total Shareholder Return (TSR) hurdle that must be met before these rights vest. Consequently, in addition to being sensitive to the dividend yield, the Performance Rights are also sensitive to market volatility and the initial TSR, with the risk free rate as a further valuation input</p>

**(b) Employee Share Scheme**

Under the McPherson's Employee Share Scheme, approved by the Board of Directors, shares with up to \$1,000 value may be issued by the Company to certain employees for no cash consideration. The purpose of this scheme is to improve employee engagement, reward our employees for service and provide employees with an ownership interest in the company, thereby improving the alignment of investor and employee objectives.

All employees, excluding the Managing Director and other members of the Senior Leadership Team who are entitled to a long term incentive, who have been continuously employed by the group for a period of at least one year are eligible to participate in the scheme at the discretion of the Board of Directors. Employees may elect not to participate in the scheme.

Under the scheme, eligible employees may be granted up to \$1,000 worth of fully paid ordinary shares in the Group annually for no cash consideration. The shares granted in 2019 vested on 31 July 2020 provided the employee remains employed by the Group. The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the week ending the day before the date of issue on 12 August 2020.

Applications under the scheme are accepted at the discretion of the Board of Directors. Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment. In all other respects the shares rank equally with other fully-paid ordinary shares on issue. The Board of Directors has determined that the scheme will be continued in 2021 on the same basis as outlined above.

	<b>12 August 2020</b>	<b>31 July 2019</b>
Number of shares issued under the Employee Share Scheme	88,288	120,771

The number of shares issued to participants on 12 August 2020 was calculated based on the \$1,000 offer amount divided by the weighted average price of \$2.801 (2019: \$1.763) at which the company's shares were traded on the Australian Stock Exchange during the week ending the day before the date of issue.

**25. Share-based payments (continued)****(c) Expenses arising from share-based payment transactions**

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2020 \$'000	2019 \$'000
Performance Rights issued under the Employee Performance Rights plan	428	(39)
Shares estimated to be issued under the Employee Share Scheme	230	205
<b>Total expenses</b>	<b>658</b>	<b>166</b>

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

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

	2020 \$'000	2019 \$'000
Not later than one year	443	448

The Group primarily leases offices, warehouses, motor vehicles and equipment under non-cancellable leases expiring within one to seven years. The leases have varying terms and renewal rights. On renewal, the terms are renegotiated.

**(b) Operating leases**

Aggregate amount of non-cancellable operating leases contracted for at balance date, but not provided for in the accounts, due:

	2020 \$'000	2019 \$'000
Not later than one year	-	4,713
Later than one year but not later than five years	-	8,876
Later than five years	-	-
<b>Total non-cancellable operating leases</b>	<b>-</b>	<b>13,589</b>

AASB16 was implemented from 1 July 2019, consequently all commitments in relation to non-cancellable operating leases contracted for at balance date have been recognised as lease liabilities in 2020.

**27. Contingent liabilities**

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

**28. Remuneration of Auditors**

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

	2020 \$	2019 \$
<b>(a) PricewaterhouseCoopers Australia</b>		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	273,800	327,600
<b>Total remuneration for audit and other assurance services</b>	<b>273,800</b>	<b>327,600</b>
<i>(ii) Other services</i>		
Consumables review	50,000	-
<b>Total remuneration for other services</b>	<b>50,000</b>	<b>-</b>
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>323,800</b>	<b>327,600</b>
<b>(b) Network firms of PricewaterhouseCoopers Australia</b>		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	-	-
Total remuneration for audit and other assurance services	-	-
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>323,800</b>	<b>327,600</b>
<b>(c) Non PricewaterhouseCoopers audit firms</b>		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	31,569	30,211
<b>Total remuneration of non-PricewaterhouseCoopers audit firms</b>	<b>31,569</b>	<b>30,211</b>
<b>Total remuneration of auditors</b>	<b>355,369</b>	<b>357,811</b>

**29. Earnings per share**

	2020 Cents	2019 Cents
Basic earnings per share	5.7	13.0
Diluted earnings per share	5.7	13.0
Basic earnings per share excluding significant items	15.3	13.0
Diluted earnings per share excluding significant items	15.2	13.0

**Reconciliation of earnings used in calculating earnings per share**

	2020 \$'000	2019 \$'000
<i>Basic and diluted earnings per share</i>		
Profit after income tax (excluding significant items)	16,336	13,721
Significant items after income tax (Note 3)	(10,274)	-
<b>Profit after income tax</b>	<b>6,062</b>	<b>13,721</b>

**Weighted average number of shares used as the denominator**

	2020 Number	2019 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	106,849,062	105,356,954
Adjustments for calculation of diluted earnings per share:		
Commencement rights granted to the Managing Director	213,000	248,991
Shares issued under the employee share scheme are dilutive and therefore are included in the calculation of diluted earnings per share	76,730	120,771
<b>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</b>	<b>107,138,792</b>	<b>105,726,716</b>

*Information concerning the classification of securities***Performance Rights**

Performance Rights granted to employees are considered to be potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they are dilutive. The Performance Rights have not been included in the determination of basic earnings per share.

Except for the Commencement rights granted to the Managing Director, the remaining outstanding Performance Rights are not included in the calculation of diluted earnings per share because they are not dilutive for the years ended 30 June 2020 and 30 June 2019. These Performance Rights could potentially dilute basic earnings per share in the future.

**Employee share scheme**

The shares estimated to be issued under employee share scheme are dilutive and therefore are included in the calculation of diluted earnings per share for the year ended 30 June 2020 and 30 June 2019.

**30. Particulars in relation to controlled entities**

<b>Name of entity</b>	<b>Country of Incorporation</b>
McPherson's Limited	Australia
McPherson's Consumer Products (NZ) Limited	New Zealand
McPherson's Consumer Products Pty Ltd *	Australia
McPherson's Consumer Products Pte Ltd	Singapore
McPherson's America Inc.	USA
McPherson's Consumer Products (HK) Limited	Hong Kong
McPherson's (UK) Limited	United Kingdom
McPherson's (Shanghai) Co.,Ltd.	China

During the financial year, the Group deregistered the following entities:

<b>Name of entity</b>	<b>Country of Incorporation</b>
Domenica Pty Ltd *	Australia
A.C.N. 082 110 101 Pty Ltd	Australia
A.C.N. 137 363 038 PTY LTD	Australia
Electrical Distributors Australia Pty Ltd	Australia
Electrical Distributors Repairs Servicing Pty Ltd	Australia
Euromaid Cooking Appliances NZ Limited	New Zealand
Integrated Appliances Group Pty Ltd	Australia
A.C.N. 127 192 223 PTY LTD	Australia
Multix Pty Ltd *	Australia
McPherson's Publishing Inc	USA
Regent Sheffield Ltd	USA
McPherson's Hong Kong Limited	Hong Kong
Cork International Far East Limited	Hong Kong

\* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission. For further information refer to Note 35.

All investments represent 100% ownership interest unless otherwise stated.

### 31. Related parties

#### *Directors*

Details relating to the insurance of Directors are included in the Directors' Report.

#### *Controlled entities*

Transactions between McPherson's Limited and its controlled entities in the Group during the year consisted of:

- ▶ Amounts advanced to and by McPherson's Limited
- ▶ Amounts repaid to McPherson's Limited
- ▶ Amounts borrowed by McPherson's Limited
- ▶ Payment and receipt of interest on certain advances at prevailing rates
- ▶ Payment of dividends to McPherson's Limited
- ▶ Receipt and payment of tax, rent, management and license fees

Refer to the Remuneration Report within the Directors' Report for information relating to key management personnel disclosures.

#### *Transactions with other related parties*

On 10 October 2019, MCP and Aware Environmental Limited (Aware) executed a Subscription Agreement and a Deed of Amendment, which set the terms under which:

- ▶ MCP converted its 3,000,000 convertibles notes at a conversion price of \$0.60 per share into 5,000,000 ordinary shares in Aware; and
- ▶ MCP subscribed for 5,000,000 shares in Aware at a subscription price of \$0.60 per share.

The Group's 10,000,000 shares represent 10.7% of the capital of Aware at 30 June 2020.

Mr. Geoffrey Pearce is a Director and a significant shareholder of Aware Environmental Limited. The above transactions were conducted on normal commercial arm's length terms and entered into in order to provide a more robust and reliable basis of skin care product supply to McPherson's.

#### *Terms and conditions*

Transactions with related parties are on an arm's length basis. Receivable amounts outstanding, other than loans, are repayable in cash and are due to be settled within two months of balance date. Outstanding loans are unsecured and do not have a specified repayment date.

**32. Deed of Cross Guarantee**

McPherson's Limited and McPherson's Consumer Products Pty Ltd are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

By entering into the Deed, McPherson's Consumer Products Pty Ltd has been relieved from the requirement to prepare a Financial Report and Directors' Report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

**(a) Condensed consolidated income statement of the parties to the Deed of Cross Guarantee**

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2020 of the parties to the Deed of Cross Guarantee.

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b><i>Income statement</i></b>		
Revenue	207,391	193,228
Other income	309	1,149
Expenses	(197,767)	(175,041)
Finance costs	(1,404)	(956)
<b>Profit before income tax</b>	<b>8,529</b>	<b>18,380</b>
Income tax expense	(7,237)	(4,383)
<b>Profit for the year</b>	<b>1,292</b>	<b>13,997</b>

**(b) Movements in consolidated retained profits of the parties to the Deed of Cross Guarantee**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b><i>Summary of movements in consolidated retained profits</i></b>		
Accumulated losses at beginning of the financial year	(9,371)	(33,369)
Profit after income tax for the year	1,292	13,997
AASB 16 impact	(3,035)	-
Dividends provided for or paid	(10,661)	8,928
<b>Accumulated losses at the end of the financial year</b>	<b>(21,775)</b>	<b>(10,444)</b>

**32. Deed of Cross Guarantee (continued)****(c) Balance sheet of the parties to the Deed of Cross Guarantee**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>		
Cash and cash equivalents	4,876	8,235
Trade and other receivables	43,747	28,152
Inventories	43,873	33,393
Derivative financial instruments	-	788
<b>Total current assets</b>	<b>92,496</b>	<b>70,568</b>
<b>Non-current assets</b>		
Other financial assets	1,457	4,504
Property, plant and equipment	5,926	5,572
Right-to-use asset	3,978	-
Intangible assets	64,698	72,898
Financial assets at fair value through OCI	6,000	-
Investments	73,402	83,511
<b>Total non-current assets</b>	<b>155,461</b>	<b>166,485</b>
<b>Total assets</b>	<b>247,957</b>	<b>237,053</b>
<b>Current liabilities</b>		
Trade and other payables	63,079	51,408
Borrowings	-	1,667
Lease liabilities	3,678	-
Derivative financial instruments	566	234
Provisions	7,160	5,363
Current tax liabilities	4,331	2,573
<b>Total current liabilities</b>	<b>78,814</b>	<b>61,245</b>
<b>Non-current liabilities</b>		
Payables	-	-
Borrowings	16,377	16,269
Lease liabilities	3,525	-
Contingent liabilities	1,776	-
Derivative financial instruments	45	-
Provisions	726	706
Deferred tax liabilities	6,718	8,847
<b>Total non-current liabilities</b>	<b>29,167</b>	<b>25,822</b>
<b>Total liabilities</b>	<b>107,981</b>	<b>87,067</b>
<b>Net assets</b>	<b>139,976</b>	<b>149,986</b>
<b>Equity</b>		
Contributed equity	159,444	157,751
Reserves	2,308	2,679
Accumulated losses	(21,776)	(10,444)
<b>Total equity</b>	<b>139,976</b>	<b>149,986</b>

**33. Notes to the statement of cash flows****(a) Reconciliation of net cash inflows from operating activities to profit after income tax**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit after income tax</b>	<b>6,062</b>	13,721
Impairment of brand names	<b>8,517</b>	-
Impairment of investment in joint venture	<b>205</b>	-
Share of loss in joint ventures	<b>3,894</b>	-
Depreciation of property, plant and equipment	<b>1,781</b>	1,475
Amortisation of other intangibles	<b>479</b>	653
Depreciation of right of use asset	<b>2,637</b>	-
Share-based payments expense	<b>671</b>	173
<i>Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets:</i>		
Increase in payables	<b>17,927</b>	4,230
(Decrease) in other provisions	<b>(100)</b>	(635)
Increase/(Decrease) in employee entitlements	<b>1,927</b>	(372)
Increase in net tax liabilities	<b>1,206</b>	196
(Increase) in receivables	<b>(15,521)</b>	(1,057)
(Increase)/Decrease in inventories	<b>(10,353)</b>	1,394
<b>Net cash inflows from operating activities</b>	<b>19,332</b>	<b>19,778</b>

**(b) Non-cash investing and financing activities**

	<b>Note</b>	<b>2020</b>	<b>2019</b>
		<b>\$'000</b>	<b>\$'000</b>
Shares issued under Dividend Reinvestment Plan	<b>23</b>	<b>1,503</b>	1,879

**33. Notes to the statement of cash flows (continued)****(c) Net debt reconciliation**

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	7,149	10,472
Borrowings repayable within one year (including overdraft)	-	(1,667)
Current lease liability	(4,507)	-
Borrowings repayable after one year	(16,377)	(16,269)
Non-current lease liability	(3,785)	-
<b>Net debt</b>	<b>(17,520)</b>	<b>(7,464)</b>
Cash and cash equivalents	7,149	10,472
Gross debt at fixed interest rates (lease liabilities)	(8,292)	-
Gross debt at variable interest rates	(16,377)	(17,936)
<b>Net debt</b>	<b>(17,520)</b>	<b>(7,464)</b>

	<b>Liabilities from financing activities</b>			
	<b>Cash and cash equivalents</b>	<b>Borrowings</b>	<b>Leases</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Net debt as at 1 July 2019</b>	10,472	(17,936)	(11,029)	<b>(18,493)</b>
Cash flows	(3,320)	1,559	3,767	<b>2,006</b>
Acquisition - leases	-	-	(1,004)	<b>(1,004)</b>
Foreign exchange adjustment	(3)	-	(26)	<b>(29)</b>
Other non-cash movements	-	-	-	-
<b>Net debt as at 30 June 2020</b>	<b>7,149</b>	<b>(16,377)</b>	<b>(8,292)</b>	<b>(17,520)</b>

**34. Events occurring after balance date**

The recent second wave of COVID-19 restrictions imposed in Victoria and New Zealand has not significantly impacted McPherson's, with key Melbourne based suppliers remaining unaffected and sales orders from Victorian and New Zealand based retailers remaining relatively stable.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2020 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

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

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

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Balance Sheet</b>		
Current assets	496	4,681
Total assets	<b>183,416</b>	183,085
Current liabilities	<b>108,695</b>	113,298
Total liabilities	<b>128,986</b>	131,074
<b>Shareholders' equity</b>		
Issued capital	<b>159,443</b>	157,751
Cash flow hedge reserve	<b>(316)</b>	499
Share-based payments reserve	<b>2,625</b>	2,180
Accumulated losses - 2016 reserve	<b>(116,096)</b>	(116,096)
Retained earnings - 2017/2018/2019 reserves	<b>8,774</b>	7,443
<b>Total shareholders' equity</b>	<b>54,430</b>	<b>51,777</b>
<b>Profit for the period</b>	<b>11,992</b>	11,778
<b>Total comprehensive income</b>	<b>11,176</b>	11,016

**(b) Contingent liabilities and guarantees**

The parent entity has guaranteed the repayment of borrowings of certain controlled entities.

The cross guarantee given by those entities listed in Note 32 may give rise to liabilities in the parent entity if McPherson's Consumer Products Pty Ltd does not meet its obligations under the terms of the overdrafts, loans, leases, or other liabilities subject to the guarantee.