

Results for announcement to the market

				\$'000
Sales revenue	down	9.8%	to	200,495
Profit before tax excluding significant items	down	57.9%	to	10,094
Profit after tax excluding significant items	down	60.1%	to	6,515
Loss before tax ¹	down	133.6%	to	(4,462)
Loss after tax ¹	down	183.2%	to	(5,041)
Loss after tax attributable to members ¹	down	183.2%	to	(5,041)

¹Including significant items in the current financial year results (refer to Note 3).

	Amount per security	Franked amount per security
Final dividend	1.5¢	1.5¢
Interim ordinary dividend	3.5¢	3.5¢

Payment date for final dividend

23 September 2021

Record date for determining entitlements to the dividend

6 September 2021

On 30 November 2020, McPherson's Consumers Products Pty Ltd acquired the Global Therapeutics business, a leading provider of branded Oriental and Western herbal and complementary medicine formulations, for a total purchase consideration of \$27,541,772.

The acquired business contributed revenues of \$9,483,626 and profit before tax of \$1,394,216 to McPherson's Limited for the period from 1 December 2020 to 30 June 2021.

Refer to Note 18 for further disclosure on this business combination.

MCPHERSON'S LIMITED AND CONTROLLED ENTITIES

A.C.N. 004 068 419

ANNUAL REPORT

YEAR ENDED 30 JUNE 2021

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 2021.

(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:

A. Mervis	<ul style="list-style-type: none"> Appointed as a Non-Executive Director on 16 February 2021 Appointed as Deputy Chairman on 27 April 2021 (until 21 July 2021) Appointed as Chairman on 21 July 2021
G.A. Cubbin	<ul style="list-style-type: none"> Resigned as Chairman on 21 July 2021 Remains a Non-Executive Director and a member of the Audit, Risk Management and Compliance Committee, until a replacement Non-Executive Director is appointed, in order to ensure an orderly transition.
G.W. Peck	<ul style="list-style-type: none"> Appointed as interim Chief Executive Officer and Managing Director on 9 December 2020 Resigned as Chairman of the Audit, Risk Management and Compliance Committee on 19 January 2021 Appointed as permanent Chief Executive Officer and Managing Director on 31 March 2021
J.M. McKellar	<ul style="list-style-type: none"> Chair of the People and Culture Committee
A.J. Cook*	<ul style="list-style-type: none"> Appointed a member and Chair of Audit, Risk Management and Compliance Committee on 19 January 2021
G.R. Pearce	
L. McAllister	<ul style="list-style-type: none"> Resigned as Chief Executive Officer and Managing Director on 9 December 2020

**Ms. Alison J. Mew changed her name to Alison J. Cook with effect from 10 February 2021.*

(b) Principal activities

McPherson's, established in 1860, is a leading supplier of Health, Wellness and Beauty products with operations in Australia, New Zealand and Asia. McPherson's markets and distributes beauty care, hair care, skin care, vitamins, supplements, 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 revenue is primarily derived from its diversified portfolio of owned market-leading brands, including Dr. LeWinn's, A'kin, Manicare, Lady Jayne, Swisspers, Multix, Fusion Health, Oriental Botanicals, Moosehead and Maseur. McPherson's also manages a small number of brands for agency partners and via joint venture arrangements.

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:

	\$'000
Interim ordinary dividend of 3.5 cents per fully paid ordinary share paid on 18 March 2021 (fully franked)	4,494
Final ordinary dividend of 1.5 cents per fully paid ordinary share declared by the Directors (fully franked) and payable on 23 September 2021 but not recognised as a liability at year end	1,926
Total dividends in respect of the financial year	6,420

The 2020 final ordinary dividend of \$7,514,000 (7.0 cents per fully paid ordinary share) was paid on 24 September 2020. A full year dividend of \$11,788,000 (11.0 cents per fully paid ordinary share) was paid in respect of the 2020 financial year.

(d) Consolidated results

The consolidated loss after tax of the Group for the financial year ended 30 June 2021 was \$5,041,000 (2020: \$6,062,000 profit after tax). The current year loss after tax is inclusive of significant items amounting to a net expense after tax of \$11,556,000 (2020: \$10,274,000). The consolidated profit after tax for the year ended 30 June 2021, excluding significant non-recurring items, was \$6,515,000 (2020: \$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 \$200.5 million for the year ended 30 June 2021, a 10% decrease on the previous year's \$222.2 million. Excluding the impact of the decline in sales to Access Brands Management (ABM), McPherson's key China facing customer for the Dr. LeWinn's brand, from \$37.2 million in FY20 to \$6.7 million in FY21, sales revenue increased by 5% from \$185.0 million to \$193.8 million.

The 5% increase in sales revenue, excluding sales to ABM, was driven by growth in the core brands Manicare, Lady Jayne, Swisspers and A'kin, offset by a decline in Multix and private label sales, and the 7 month sales impact of the Fusion Health and Oriental Botanicals brands which were acquired effective 1 December 2020.

Underlying EBIT (earnings before interest and tax) was \$11.3 million, 55% below FY20 (\$25.1 million), excluding the following significant items in FY21:

- ▶ (\$6.7) million provision expense for hand sanitiser inventory;
- ▶ (\$5.0) million impairment of investments in joint ventures, related shareholder loans and receivables;
- ▶ (\$1.9) million takeover response advisory fees;
- ▶ (\$0.9) million acquisition costs in relation to Fusion Health and Oriental Botanicals brands;
- ▶ (\$1.5) million employee costs in relation to the resignation of the previous Managing Director, including (\$0.7m) cash salary and fee package, and (\$0.8m) non-cash expense for unvested performance rights retained;
- ▶ (\$0.3) million due diligence costs on other potential acquisition targets; and
- ▶ \$1.8 million release of contingent consideration for the My Kart joint venture.

Underlying PBT (profit before tax) was \$10.1 million, 58% below FY20 (\$24.0 million), excluding the significant items noted above. Underlying earnings per share (EPS), excluding significant items, decreased 65% from 15.3 cents in FY20 to 5.4 cents in FY21.

Inclusive of the aforementioned significant items, McPherson's reported a 183% decrease in statutory loss after tax of (\$5.0) million (FY20: \$6.1 million profit after tax).

McPherson's achieved underlying cash conversion of 108% in FY21 (FY20: 88%). Net bank debt remains low at \$8.4 million (FY20: \$9.2 million), with the Group raising capital of approximately \$15.0 million above the amount invested in the acquisition of the Fusion Health and Oriental Botanicals brands, inclusive of post-acquisition working capital build. The Group's underlying leverage ratio (net bank debt / underlying EBITDA) was low at 0.5 times at 30 June 2021. The company's gearing ratio (net bank debt / total funds employed) was also low at 6.8% at 30 June 2021.

McPherson's Directors declared a total ordinary dividend of 5.0 cents per share (cps) fully franked for the full year, 55% below the FY20 total ordinary dividend of 11.0 cents per share fully franked. The dividend payout ratio for the year ended 30 June 2021 was 93% of underlying EPS.

Acquisition of Fusion Health and Oriental Botanicals brands

On 27 October 2020, McPherson's announced the acquisition of the premium Fusion Health and Oriental Botanicals brands, with effect from 1 December 2020, which provide a broad range of Western and Oriental herbal and complementary medicine formulations to consumers based in Australia and New Zealand. Its formulation strategy comprises embedding traditional herbal medicine evidence and principles with modern dosage and science-based materials.

(e) Review of operations (continued)

Acquisition of Fusion Health and Oriental Botanicals brands (continued)

The acquisition is highly complementary to McPherson's and provides a respected foundation from which the Group can execute and grow health and wellness as a core strategic priority. Key strategic elements of the acquisition include:

- ▶ Fusion Health and Oriental Botanicals are well recognised and supported premium brands across health food stores and pharmacy channels;
- ▶ The unique product profile provides a point of difference for consumers, delivering a higher margin and value proposition to McPherson's relative to the broader vitamins and mineral supplements category;
- ▶ The two brands have a strong heritage underpinned by a highly qualified and aligned team with deep health food store and pharmacy distribution experience who have transitioned well into the new McPherson's health and wellness strategy; and
- ▶ The acquisition provides for meaningful revenue and operational benefits over the medium term delivered through brand investment, channel expansion, export focus and operational and collaboration efficiencies across the McPherson's Group.

The acquisition consideration, inclusive of post-acquisition working capital, was \$27.5 million and was financed through an Institutional Placement in late October 2020 and Share Purchase Plan in late November 2020, which collectively raised \$44.6 million net of costs. Projected first year sales and EBIT from the acquisition are approximately \$20.0 million and \$3.2 million respectively.

Disruption in sales of Dr. LeWinn's to ABM

FY21 domestic sales growth was more than offset by the significant decline in export sales of Dr. LeWinn's products to ABM. Dr. LeWinn's volumes in China cycled very high promotional performances in the first half of calendar 2020. As noted in December 2020, promotional volumes post "peak" COVID-19 were well below expectations, and this led to a significant inventory surplus. McPherson's sales to ABM declined in FY21 as orders post the major 11/11 promotional event in November 2020 were based on new product volumes and selective replenishment only, given the stock-weight remaining in the supply chain.

Lower shipments between McPherson's and ABM in Q4 of FY21 are expected to support better supply chain management in FY22. McPherson's and ABM continue to work collaboratively to support the brand in which both entities have continued confidence.

The disruption in sales of Dr. LeWinn's to ABM led to incremental excess stock, resulting in an inventory provision of \$5.4 million as at 30 June 2021 (2020: \$0.7 million).

Operational Review

As announced to the ASX on 19 May 2021, the Group has undertaken a comprehensive Operational Review to identify and prioritise McPherson's key growth drivers, with a view to implementing strategies that deliver both short and long term value to shareholders.

As part of the Operational Review, the strategic intent of the Group was outlined as:

- ▶ Health, Wellness and Beauty remain the core focus;
- ▶ The near term focus will be on the growth potential in existing categories from established brands, capabilities, customers and channels;
- ▶ Growth potential will be executed through greater collaboration, alignment and simplification of purpose, including a simplification of the joint venture strategy; and
- ▶ Brand acquisitions consistent with this definition have been a key component of the Group's transition and will continue to be assessed, with clear guidelines.

McPherson's four key Operational Review outcomes were:

- ▶ Focus on core owned brands and key domestic channels;
- ▶ Health & wellness – a new growth platform;
- ▶ Expand international footprint; and
- ▶ Cost base recalibration.

The broad financial targets of \$300 million in sales and \$50 million in EBIT over a five-year time horizon were established.

(e) Review of operations (continued)

Significant items

Further information regarding certain significant items recorded in FY21 is provided below.

In response to a very strong initial COVID-19 driven demand for hand sanitisers, McPherson's placed firm supplier purchase orders to fulfil customer purchase orders. McPherson's new supplier delivered the product later than required, and consequently our customer cancelled most of its orders, leaving the Group with a significant quantity of this product. Demand subsequently dissipated and the supply base for such products became much more competitive, resulting in the Group holding excess quantities of hand sanitiser inventory. Given market conditions and the costs associated with holding and disposing of excess stock, McPherson's fully provided for this inventory with a provision expense of \$6.7 million before tax. The vast majority of hand sanitiser inventory has been disposed at 30 June 2021 in a compliant manner.

An outcome of the Operational Review was the decision to simplify the Group's joint venture arrangements, consequently full provision of \$5.0 million before tax has been made for impairment of the Group's investments, shareholder loans and receivables in relation to the three incubation joint ventures, being Kotia, My Kart and Sugarbaby. Consideration is being given to the optimal outcomes in each case, including operating the joint ventures on an improved, more efficient basis or through an exit strategy.

On 25 March 2021, Gallin Pty Ltd launched an unconditional takeover offer for McPherson's at \$1.34 per share for each of the shares it did not own at that time (Gallin Offer). On 28 April 2021 McPherson's received a non-binding indicative proposal from Arrotex Australia Group Pty Ltd to acquire, by scheme of arrangement, all the outstanding shares in McPherson's at an indicative cash consideration of \$1.60 per share (Arrotex Proposal). The Gallin Offer lapsed in accordance with its terms on 10 May 2021, and the Arrotex Proposal was withdrawn on 15 June 2021. The advisory fees associated with responding to both offers were \$1.9 million before tax.

The remaining material significant items are considered self-explanatory.

COVID-19 update

The protracted lockdown in Eastern Australia, that has resulted from the June 2021 outbreak of the Delta variant of COVID-19, has not materially impacted the Group's supply chain or sales, with many of the Group's core brands such as Multix, Manicare, Lady Jayne and Swisspers catering to home-based consumer needs, largely offsetting the adverse impact on sales of the Group's skincare brands, Dr. LeWinn's and A'kin.

At this challenging time, the ongoing well-being and support of McPherson's employees are the highest priority and appropriate measures are in place to optimise their safety and well-being.

The adverse impact of the current COVID-19 related downturn in demand from Chinese consumers on our supplier Aware Environmental Limited's (AEL) customer base, including McPherson's, has resulted in a deterioration in AEL's financial outlook in the medium term. Consequently, following a recapitalisation by AEL to mitigate liquidity concerns, McPherson's has fully impaired its \$6.0 million investment in AEL at 30 June 2021. This impairment is reflected as a reduction in the non-current asset "Financial asset at fair value through other comprehensive income" and a reduction in Reserves. It does not impact the Group's profit and loss statement. Subsequent to 30 June 2021 AEL undertook a series of restructuring transactions which resulted in the Group's interest in the capital of AEL reducing from 10.7% at 30 June 2021 to approximately 7.4%.

Geographical segmentation of sales

Australia

McPherson's Australian operations' sales revenue was \$185.9 million, a decrease of 10% on FY20 (\$207.4 million). Excluding the impact of the decline in sales to Access Brands Management (ABM), sales revenue increased by 5% from \$170.2 million to \$179.2 million. Sales growth in the Lady Jayne (36%), Manicare (13%), A'kin (18%), Maseur (24%) and Swisspers (5%) owned brands were achieved in FY21 indicating the resilience and consumer appeal of these core brands, with the newly acquired Fusion Health and Oriental Botanicals brands contributing \$9.5 million to sales in FY21 since their acquisition on 1 December 2020.

New Zealand

McPherson's New Zealand business offers a similar range of products to those sold in the Australian market and experienced a 16% increase in sales revenue from \$A9.0 million in FY20 to \$A10.4 million in FY21 largely due to increases in sales of owned brands Manicare (25%), Multix (5%), Dr. LeWinn's (7%), Lady Jayne (189%) and A'kin (85%).

(e) Review of operations (continued)

Asia

From its Asia sales headquarters in Singapore, McPherson's markets its range of Health, Wellness & Beauty products throughout the Asian region. Sales were significantly impacted by the COVID-19 outbreak, reducing by 29% to \$A4.1 million in FY21 from \$5.8 million in FY20, due to a 24% decrease in owned brand sales, a 25% decrease in agency sales and the loss of private label footcare product supply to Watsons. The Group also has a sourcing operation located in Hong Kong that manages many aspects of product procurement and quality assurance.

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.

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 consumer purchasing trends, such as the increase in on-line shopping, 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 safeguarding our staff and their work environments throughout the COVID-19 phase. Internal policies and processes have been established 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 result. The Board has established, and regularly reviews the Group's foreign currency hedging policy with the objective of mitigating short to medium term foreign currency risk.

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 options and foreign exchange contracts on a rolling basis.

(e) Review of operations (continued)

Risk management and compliance (continued)

▶ **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 have some correlation 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 to a large Australian pharmacy customer and two large 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 acquisition of the Fusion Health and Oriental Botanicals brands, which operate in the Independent Pharmacy and specialist Health Food channels.

▶ **Exposure to the China market**

A significant 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.

▶ **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 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.

▶ **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 deployment of capital to investments that do not present acceptable risk / 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; 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 minimise 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.

(e) Review of operations (continued)

Risk management and compliance (continued)

▶ **Cyber security**

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

▶ **Talent management**

The loss of key Management Talent and potential underutilisation of key Management Talent represents a key risk to the business that is mitigated by People and Culture 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

The Group completed a \$36,526,000 fully underwritten equity placement (16,090,606 shares) to institutional investors on 28 October 2020 and a \$9,386,000 share purchase plan (4,365,271 shares) which was available to all securityholders on 27 November 2020 in order to fund the acquisition of the Global Therapeutics business and provide the Group with additional balance sheet capacity for further growth initiatives and potential acquisitions.

On 30 November 2020, McPherson's Consumers Products Pty Ltd acquired the Global Therapeutics business, a leading provider of branded Oriental and Western herbal and complementary medicine formulations, for a total purchase consideration of \$27,541,772. Refer to Note 18 Business Combination.

Other than the above, there were no other significant changes in the state of affairs of the Group during the financial year.

(g) Events subsequent to balance date

The recent COVID-19 restrictions imposed in Australia have not significantly impacted McPherson's, with key suppliers remaining unaffected and sales orders from Australian based retailers remaining relatively stable.

On 21 July 2021, Mr. Graham Cubbin stepped down from the role of Chairman and, following a transition period, will retire from the Board. He was succeeded as Chairman by current Independent Non-Executive Director and Deputy Chairman Mr. Ari Mervis.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2021 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 2021.

(i) Information on Directors

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

ARI MERVIS B.Comm – Chairman of the Board

Expertise and experience

Mr. Mervis was appointed an Independent Non-Executive Director of McPherson's Limited on 16 February 2021, Deputy Chairman on 27 April 2021 and Chairman of the Board from 21 July 2021.

Mr. Mervis is a professional company director with global experience spanning a range of industries in branded goods, consumer staples, agriculture, food and beverages. Mr. Mervis has vast experience having lived and operated businesses in complex geographies and having led and been involved in both listed and unlisted companies, as well as joint venture structures and not for profit organisations. His experience is further enhanced through having actively participated in significant mergers and acquisitions, and divestments, including post-acquisition integration and synergy delivery.

Mr. Mervis was most recently Executive Chairman for Accolade Wines and prior to that was CEO and Managing Director for Murray Goulburn. Before that he had a successful career at SABMiller, culminating as CEO for CUB and MD for the Asia Pacific region. He was also Chairman of China Resources Snow Beer, SABMiller India and SABMiller Vietnam.

Mr. Mervis holds a Bachelor of Commerce from the University of Witwatersrand, South Africa, with majors in Economics, Commercial Law and Marketing.

Special responsibilities

Deputy Chairman of the Board from 27 April 2021 (until 21 July 2021)

Chairman of the Board from 21 July 2021

Other current Directorships in ASX listed companies

None

Former Directorships in ASX listed companies in last three years

Murray Goulburn Co-Operative Company Ltd.

Interests in shares and performance rights

150,000 ordinary shares in McPherson's Limited

No performance rights held

GRAHAM A. CUBBIN, B.Econ. (Hons) – Independent Non-Executive Director

Expertise and experience

Mr. Cubbin was appointed an Independent Non-Executive Director of the Company on 28 September 2010. Graham was appointed Chairman of McPherson's Limited on 1 July 2015 and held that position until 21 July 2021.

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 (until 21 July 2021)

Member of the People and Culture Committee

Member of the Audit, Risk Management and Compliance Committee

Other current Directorships in ASX listed companies

Director of Bell Financial Group Limited and White Energy Company Limited

Former Directorships in ASX listed companies in last three years

Director of Challenger Limited

Director of WPP AUNZ Limited (resigned in May 2021)

Interests in shares and performance rights

283,953 ordinary shares in McPherson's Limited

No performance rights held

(i) Information on Directors (continued)

GRANT W. PECK, B. Bus, CA – Independent Non-Executive Director until 9 December 2020 and Managing Director and Chief Executive Officer from 9 December 2020

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 People and Culture Committee. Mr. Peck stepped down as a member (and therefore as Chairman) of the Audit, Risk Management and Compliance Committee on 19 January 2021.

With effect from 9 December 2020, Mr. Peck was appointed as the Managing Director and Chief Executive Officer on an interim basis and was appointed as permanent Managing Director and Chief Executive Officer effective 31 March 2021.

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

Managing Director and Chief Executive Officer (appointed on 9 December 2020 on an interim basis and as permanent Managing Director and Chief Executive Officer with effect from 31 March 2021)

Member and Chairman of the Audit, Risk Management and Compliance Committee (resigned on 19 January 2021)

Member of the People and Culture 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

55,400 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 People and Culture Committee and was appointed Chair 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

Chair of the People and Culture Committee

Member of the Audit, Risk Management and Compliance Committee

Other current Directorships in ASX listed companies

Director of GWA Group Limited, Freedom Foods Limited and NRMA.

Former Directorships in ASX listed companies in last three years

Director of Automotive Holdings Group Limited

Interests in shares and performance rights

7,069 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

Interests in shares and performance rights

655,939 ordinary shares in McPherson's Limited

No performance rights held

(i) Information on Directors (continued)

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

Expertise and experience

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

Ms. Cook 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. Cook is also familiar with the regulatory environment that governs the healthcare market. In addition to these technical and operational activities, Ms. Cook has been involved in corporate acquisitions and divestments as well as the strategic planning process.

Ms. Cook 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. Cook 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

Appointed a member and Chair of Audit, Risk Management and Compliance Committee on 19 January 2021

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

15,500 ordinary shares in McPherson's Limited

No performance rights held

LAURENCE MCALLISTER – Managing Director and Chief Executive Officer until 9 December 2020

Experience and expertise

Mr. McAllister was appointed Managing Director and Chief Executive Officer of McPherson's Limited on 21 November 2016 and resigned on 9 December 2020.

Special responsibilities

Managing Director and Chief Executive Officer (until his resignation effective 9 December 2020)

Other current Directorships in ASX listed companies at the date of his resignation as a Director of McPherson's Limited

Non-Executive Director of Medlab Clinical Limited

Former Directorships in ASX listed companies in last three years

None

Interests in shares and performance rights at the date of his resignation as a Director of McPherson's Limited

Nil ordinary shares in McPherson's Limited

2,624,000 performance rights

(i) Information on Directors (continued)

Meeting of Directors

The number of Board, Audit, Risk Management and Compliance Committee, and People and Culture Committee meetings held during the year ended 30 June 2021, and the number of meetings attended during that period by each Director, are set out below:

Directors	Board meetings		Audit, Risk Management and Compliance Committee meetings		People and Culture Committee ¹ meetings	
	Held	Attended	Held	Attended	Held	Attended
Graham A. Cubbin	24	24	4	4	5	5
Laurence McAllister ²	8	8	n/a	n/a	n/a	n/a
Jane M. McKellar	24	24	4	4	5	5
Grant W. Peck ³	24	24	2	2	5	5
Geoffrey R. Pearce	24	23	n/a	n/a	n/a	n/a
Alison J. Cook ⁴	24	24	2	2	n/a	n/a
Ari Mervis ⁵	14	14	n/a	n/a	n/a	n/a

¹ During the year the name of the Nomination and Remuneration Committee was changed to People and Culture Committee.

² Laurence McAllister resigned as an Executive Director on 9 December 2020.

³ Grant Peck stepped down as a member of the Audit, Risk Management and Compliance Committee with effect from 19 January 2021.

⁴ Alison Cook was appointed a member and Chair of the Audit Risk Management and Compliance Committee with effect from 19 January 2021.

⁵ Ari Mervis was appointed a Director on 16 February 2021, Deputy Chairman on 27 April 2021 and Chairman on 21 July 2021.

(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, FCA – 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 Fellow of the Institute of Chartered Accountants in Australia and New Zealand.

Before joining McPherson's, Mr. Witheridge held senior financial and company secretarial positions with a number of listed companies in the retail sector including as Chief Financial Officer of 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 Chair of the People and Culture Committee

Dear Shareholders,

The Board is pleased to present McPherson's Remuneration Report for the year ended 30 June 2021. This report outlines the FY21 remuneration structure and outcomes for McPherson's Key Management Personnel (KMP), being the Managing Director, the Chief Financial Officer (CFO), the Commercial Director ANZ and Non-Executive Directors. The report also covers remuneration policies and outcomes for other senior executives within the Senior Leadership Team.

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.

Oversight of executive remuneration is a fundamental responsibility of the Board. The Board, through its People and Culture 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.

Key points

- ▶ McPherson's remuneration structure aligns KMP and Senior Leadership Team remuneration to Group performance.
- ▶ FY21 Short Term Incentives (STI) were not paid or accrued to the Managing Director, KMPs or other Senior Leadership Team members, as the threshold profit before tax performance hurdles were not met.
- ▶ No Long Term Incentives (LTI) vested in FY21 for the current Senior Leadership Team.
- ▶ Refresh of the Board:
 - ▶ Mr. Grant Peck was appointed interim Managing Director in December 2020 and appointed Managing Director on a permanent basis in March 2021.
 - ▶ Mr. Ari Mervis was appointed as a Non-Executive Director in February 2021, Deputy Chairman in April 2021 and Chairman in July 2021.
 - ▶ Mr. Graham Cubbin stepped down as Chairman in July 2021 and a search is being undertaken for a new independent Non-Executive Director to replace Graham when he retires from the Board.
- ▶ The KMP and Senior Leadership Team, including the Managing Director, received no increase to Total Fixed Remuneration (TFR) during the year, with the exception of the Chief People Officer and the Research and Development Director due to increases in responsibility. The reduction of three Senior Leadership team members in FY22 will significantly reduce ongoing remuneration costs.
- ▶ Non-Executive Director fees were not increased in FY21 (no increase since 1 July 2017).
- ▶ A review of the short and long term incentive framework for FY22 has been undertaken by the People and Culture Committee and ratified by the Board. The FY22 STI and LTI vesting targets reflect the materially changed business performance in FY21, and are aligned with execution of the McPherson's Operational Review that envisages a five-year transformation program to promote growth and enhance profitability.
- ▶ External remuneration consultants will be engaged in FY22 to review the structure and quantum of KMP and Senior Leadership Team remuneration to ensure that it is market competitive, appropriately performance based and equitable, and aligned with shareholders' returns.
- ▶ The total remuneration opportunity for the newly appointed Managing Director, Mr. Grant Peck, is set at a level considered appropriate for the position, and closely aligned to market norms and to the Group's shareholder expectations.

(k) Remuneration Report (continued)

Letter from the Chair of the People and Culture Committee (continued)

FY21 Remuneration Outcomes

In the context of the performance outlined in the Review of Operations, the Group has not made or accrued any payments as part of its STI plan as the qualification hurdles were not met.

LTI performance rights issued in 2017 and 2018, to be assessed on FY21 outcomes, did not vest in the current year as the Total Shareholder Return (TSR) and Earnings Per Share (EPS) measures were below the minimum thresholds required under the LTI plan.

The Managing Director, CFO, Commercial Director ANZ and the Senior Leadership Team did not receive or accrue an incentive under the STI or LTI plans in FY21.

Consistent with the business performance in FY21, there were no increases to TFR of the KMP or Senior Leadership Team members in FY21 with the exception of the Chief People Officer and the Research and Development Director due to specific increases in their responsibility.

FY22 Remuneration Structure in the Context of Operational Review Outcomes

As outlined to the ASX on 19 May 2021, the Group has undertaken a comprehensive Operational Review to identify and prioritise McPherson's key growth drivers, with a view to implementing strategies that deliver both short and long term value to shareholders.

McPherson's four key Operational Review outcomes were:

- A. Focus on core owned brands and key domestic channels;
- B. Health & wellness – a new growth platform;
- C. Expand international footprint; and
- D. Cost base recalibration.

The cost base recalibration element of the Operational Review has resulted in a simplification and reduction in the size of its Senior Leadership Team of 3 roles, with a corresponding reduction in the overall cost of executive remuneration in FY22, including STI and LTI elements outlined below. Under this new Senior Leadership Team structure, the Board has determined that the Chief Executive Officer and the Chief Financial Officer represent Key Management Personnel in FY22, in addition to the Directors of the Board, as they have authority and responsibility for planning, directing, and controlling the activities of the Group.

Additionally, the focus on cost base recalibration is also reflected in the total remuneration opportunity for the newly appointed Managing Director, Mr. Grant Peck, which is set at a level considered appropriate for the position, and closely aligned with the market norm and shareholder expectations.

Sustainable Incentive Plans

Incentive programs that establish unrealistic targets for Management and therefore do not result in potential outcomes for the Management team would be unsustainable.

The Board considers it in shareholders' interest for the Company to provide Management with appropriately calibrated incentive plans that provide a challenging, yet realistic, opportunity for the Managing Director and other Senior Leadership Team members to achieve in parallel with enhanced outcomes for shareholders.

The plans outlined below have been carefully considered, taking into account the current trading environment and specific organisational risks, and are considered both challenging and achievable for the Managing Director and other Senior Leadership Team members.

FY22 Short-Term Incentives

The Board, as recommended by the People and Culture Committee, has approved the following STI program for FY22 for the Managing Director and other Senior Leadership Team (SLT) members, noting:

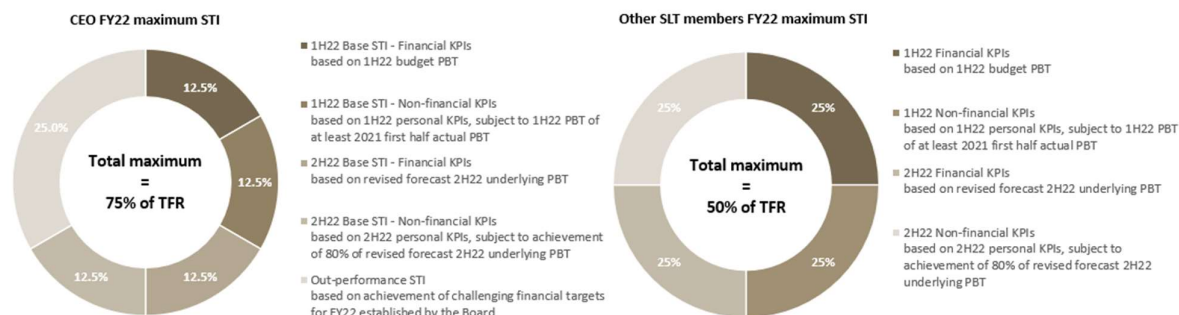
- (i) All PBT thresholds noted below are inclusive of the requisite provision for STIs and LTIs; and
- (ii) The structure will be subject to further review by external remuneration consultants in FY22.

(k) Remuneration Report (continued)

Letter from the Chair of the People and Culture Committee (continued)

FY22 Remuneration Structure in the Context of Operational Review Outcomes (continued)

FY22 Short-Term Incentives (continued)



FY22 STI attributes	Description
Maximum STI Chief Executive Officer	<p>The maximum available STI opportunity for the Managing Director is 75% of TFR, whereby achievement of Board determined FY22 target outcomes results in an STI opportunity of 50% of TFR (Base STI), and a further STI opportunity of up to 25% of TFR providing Board determined out-performance targets are met (Out-performance STI).</p> <p>The Managing Director's Out-performance STI element will be based on achievement of challenging financial targets for FY22 established by the Board.</p> <p>The maximum available Base STI opportunity is 50% of TFR, of which 50% relates to financial Key Performance Indicators (KPIs) and 50% relates to non-financial KPIs.</p> <p>Further information relating to these STI elements is set out below.</p>
Maximum STI Other SLT members	<p>The maximum available STI opportunity is 50% of TFR, of which 50% relates to financial Key Performance Indicators (KPIs) and 50% relates to non-financial KPIs.</p> <p>Further information relating to these STI elements is set out below.</p>
Financial and non-financial KPI elements	<p>The financial and non-financial KPI elements will be considered separately relative to discreet outcomes achieved for each of the first half (1H22) and second half (2H22) of FY22.</p>
Why separate KPIs for each half year period?	<p>The Board retained its approach of 6-month periods for the assessment of financial and non-financial KPIs in order to acknowledge the continued inherent uncertainty arising from the COVID-19 pandemic, the resulting economic environment instability and its potentially adverse impact on the Group's financial performance, especially Export markets.</p>
1H22 STI	<p>The 1H22 financial STI is to be referenced to 1H22 actual underlying PBT, with an STI entitlement subject to:</p> <ul style="list-style-type: none"> ▶ Minimum outcome of 90% of 1H22 budget PBT being achieved; and ▶ Maximum STI payable at 110% of 1H22 budget PBT. <p>The 1H22 non-financial KPI outcomes are to be based on an assessment of 1H22 personal KPIs, subject to the achievement of 1H22 PBT of at least the FY21 first half actual underlying PBT.</p>
2H22 STI	<p>The 2H22 financial STI is to be referenced to the 2H22 actual underlying PBT, with an STI entitlement subject to:</p> <ul style="list-style-type: none"> ▶ Minimum outcome of 90% of the 2H22 revised forecast underlying PBT being achieved; and ▶ Maximum STI payable at 110% of the 2H22 revised forecast underlying PBT. <p>The 2H22 non-financial KPI outcomes are to be based on an assessment of 2H22 personal KPIs, subject to achievement of 80% of the revised forecast 2H22 underlying PBT.</p>
Board discretion	<p>The Board retains absolute discretion over all invitations and awards under any incentive scheme.</p>

(k) Remuneration Report (continued)

Letter from the Chair of the People and Culture Committee (continued)

FY22 Remuneration Structure in the Context of Operational Review Outcomes (continued)

FY22 Short-Term Incentives (continued)

An element of the proposed external remuneration review will be the inclusion of McPherson's equity in the above STI plan, the objective being to align STI compensation with the medium term performance of the company, by establishing an appropriate vesting period or trading restraint on the equity issued as part of the STI, thereby linking the STI with the medium term performance of the company.

FY22 Long-Term Incentives

The People and Culture Committee has also considered the structure and vesting criteria of the 2022 LTI (Performance Rights) Plan, including the following relevant factors:

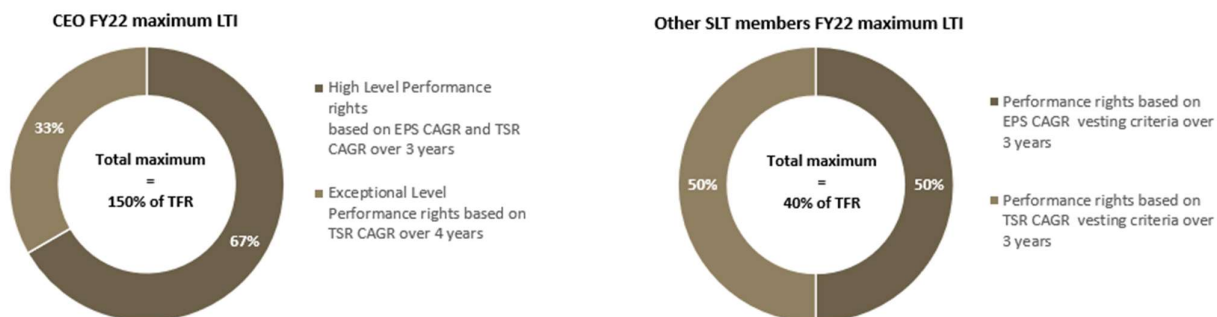
- ▶ Earnings per share (EPS) and total shareholder return (TSR) vesting hurdles given the FY21 trading outcome and current share price;
- ▶ Prevailing and likely forward macro-economic conditions;
- ▶ The CEO's Exceptional Level Performance (ELP) rights being designed to reward exceptional performance outcomes;
- ▶ Attracting and retaining the best talent; and
- ▶ Alignment with shareholder expectations.

The FY21 underlying EPS outcome of 5.4 cents per share (cps) was adversely impacted by an unanticipated and significant decline in export sales to China-facing customer ABM. Consequently, this EPS outcome is not considered an appropriate EPS level on which to base Performance Rights vesting targets that reference EPS growth. An increased base EPS of 10.0cps will be used for assessing future vesting of the FY22 Performance Rights instead. This elevated base EPS, in combination with the EPS growth hurdles outlined below, generates a 3-year EPS vesting threshold that is closely aligned with the annual "glide path" of the 5-year Operational Review financial targets.

Similarly, the base share price previously used to determine target growth and vesting outcomes of the TSR performance rights, being the 20-day volume weighted average price (VWAP) to 30 June (i.e. \$1.22 to 30 June 2021) is considered by the People and Culture Committee to be adversely impacted by recent earnings announcements and share trading activity and therefore below fair value. Consequently:

- ▶ The base share price to determine performance outcomes for FY22 TSR performance rights is set at \$1.34, reflecting a 10% lift in the base share price compared with the 20-day VWAP to 30 June 2021 and resulting in more challenging TSR targets; and
- ▶ The TSR Compound Average Growth Rate (CAGR) vesting thresholds have been increased to reflect the expectation that execution of the Operational Review outcomes will result in a material increase in TSR over the vesting assessment period of the FY22 Performance Rights.

The Board, as recommended by the People and Culture Committee, has approved the following terms in relation to performance rights to be granted in FY22:



The number of performance rights to be granted is based on a nominal value, not an intrinsic value, calculated as the applicable percentage of total remuneration package divided by the VWAP of the company's shares on the ASX over 20 trading days ending at close of trade, on the day which is two days before the date of issue of these performance rights.

(k) Remuneration Report (continued)

Letter from the Chair of the People and Culture Committee (continued)

FY22 Long-Term Incentives (continued)

KMP	FY22 LTI attributes	Description
Chief Executive Officer ¹	Maximum LTI	The CEO's total maximum LTI opportunity is 150% of TFR: <ul style="list-style-type: none"> ▶ High Level Performance rights (HLP): Two thirds of the LTI opportunity with vesting based equally on EPS CAGR and TSR CAGR; and ▶ Exceptional Level Performance rights (ELP): One third of the LTI opportunity with vesting based on TSR CAGR.
	HLP vesting hurdles <i>EPS CAGR</i>	The minimum vesting criteria applicable to the HLP rights over a three year performance period is 15.0% EPS CAGR, with the number of rights vesting determined on a straight line basis from 30.0% vesting at +15.0% EPS CAGR to 100.0% vesting at +20.0% (or higher) EPS CAGR.
	HLP vesting hurdles <i>TSR CAGR</i>	The minimum vesting criteria applicable to the HLP rights over a three year performance period is 15.0% TSR CAGR, with the number of rights vesting determined on a straight line basis from 30.0% vesting at +15.0% TSR CAGR to 100.0% vesting at +20.0% (or higher) TSR CAGR.
	ELP vesting hurdles <i>TSR CAGR</i>	The minimum vesting criteria applicable to the ELP rights over a four year performance period is 20.0% TSR CAGR, with the number of rights vesting determined on a straight line basis from 30.0% vesting at +20.0% TSR CAGR to 100% vesting at +25.0% (or higher) TSR CAGR.
Other Senior Leadership Team members	Maximum LTI	The maximum total LTI opportunity is 40% of TFR.
	Performance rights	The performance rights granted are split equally between those with EPS CAGR and TSR CAGR vesting criteria, both measured over a three year performance period.
	Vesting hurdles	Identical to the CEO's HLP vesting hurdles.

¹ The proposed LTI structure and other performance rights to be granted to the CEO under the terms of his employment agreement are each subject to shareholder approval at the 2021 AGM

Base Remuneration

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

(k) Remuneration Report (continued)

Letter from the Chair of the People and Culture Committee (continued)

Other key initiatives from the People and Culture Committee

Initiatives	Description
Wellbeing	<p>The wellbeing of our employees has been a priority throughout the pandemic period and continues to be on the top of our agenda. Several initiatives have been put in place to support communications, wellbeing assessments, mental health support and access to Employee Assistance Programs for our people and their families.</p> <p>Our facilities have been set up with COVID Safe Plans to ensure those that attend are in a safe working environment that allows them to continue to focus on working towards their goals.</p>
Employee Assistance Program	<p>We have seen an increase in the use of our Employee Assistance Program Services across the organisation. Our people come first and looking after their mental health through these difficult times is a high priority.</p> <p>Our employees continue to connect with each other on regular basis, supported by ambassadors of the Employee Assistance Program that create opportunities for our people to seek support for themselves and their families when needed.</p>
Flexible working arrangements	<p>With the everchanging environment of how we do business, McPherson's has adopted flexible working arrangements combining the office and working remotely to ensure our people have the support required to continue to be effective in their roles.</p> <p>Continuous communication from management with their teams on how we adapt to the needs of our people, their teams and the organisation has been key to the success of flexible working arrangements.</p>

We hope you find this report informative and a clear demonstration of our commitment to responsible and effective remuneration practices that are aligned with our shareholder's expectations.

Yours sincerely

Jane McKellar
Chair of the People and Culture Committee

(k) Remuneration Report (continued)

The McPherson's Limited FY21 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:

Name	Role	Term as KMP in FY21
G.A. Cubbin	Non-executive Chairman	Full year (stepped down as Chairman on 21 July 2021)
A. Mervis	Non-executive Director	Appointed on 16 February 2021
	Deputy Chairman	Appointed on 27 April 2021 (until 21 July 2021)
	Chairman	Appointed on 21 July 2021
G.W. Peck	Non-executive Director	Until 9 December 2020
	Interim Chief Executive Officer & Managing Director	Appointed on 10 December 2020
	Chief Executive Officer & Managing Director	Appointed on 31 March 2021
J.M. McKellar	Non-executive Director	Full year
G.R. Pearce	Non-executive Director	Full year
A.J. Cook	Non-executive Director	Full year
L. McAllister	Executive Director & Managing Director	Resigned on 9 December 2020

Other key management personnel

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

Name	Role	Term as KMP in FY21
P. Witheridge	Chief Financial Officer and Company Secretary	Full year
L. Pirozzi	Commercial Director ANZ	Full year

Changes since the end of the reporting period

Mr. Cubbin stepped down as the Chairman of the Board on 21 July 2021 while Mr. Ari Mervis was simultaneously appointed Chairman of the Board. A search is being undertaken for a new independent Non-Executive Director to replace Graham when he retires from the Board.

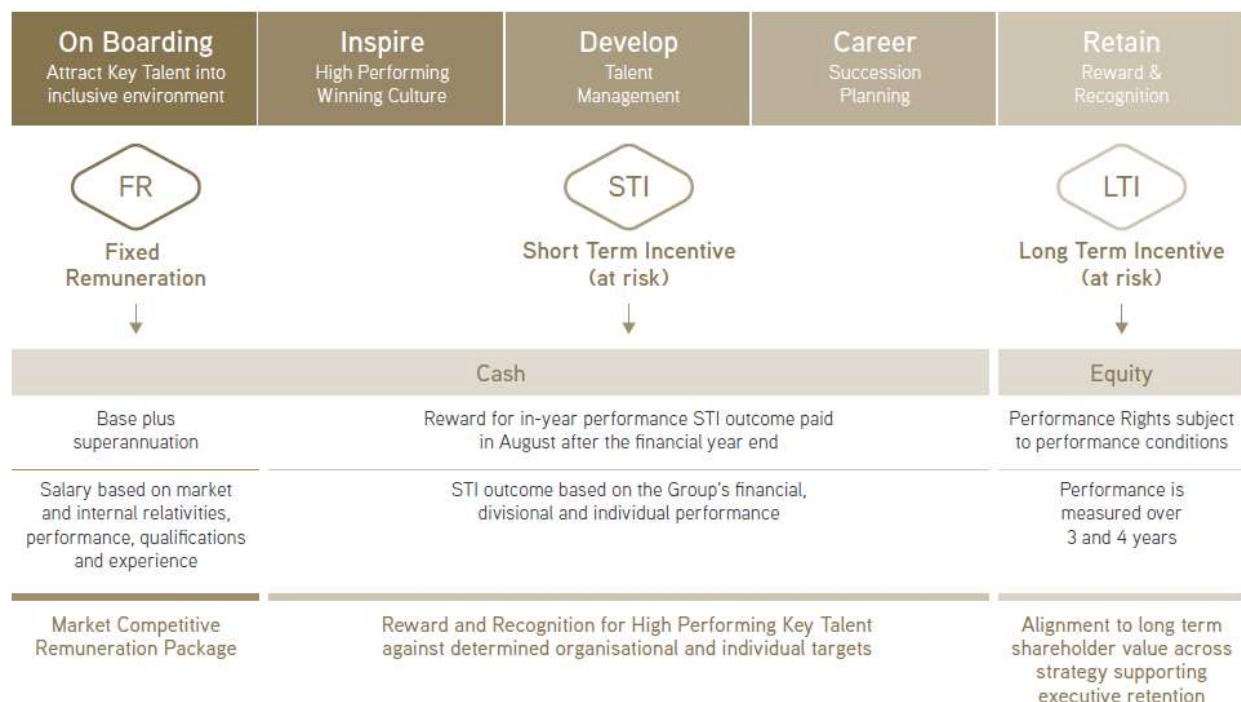
There have been no other changes in KMP since the end of the reporting period.

(k) Remuneration Report (continued)

Key management personnel (continued)

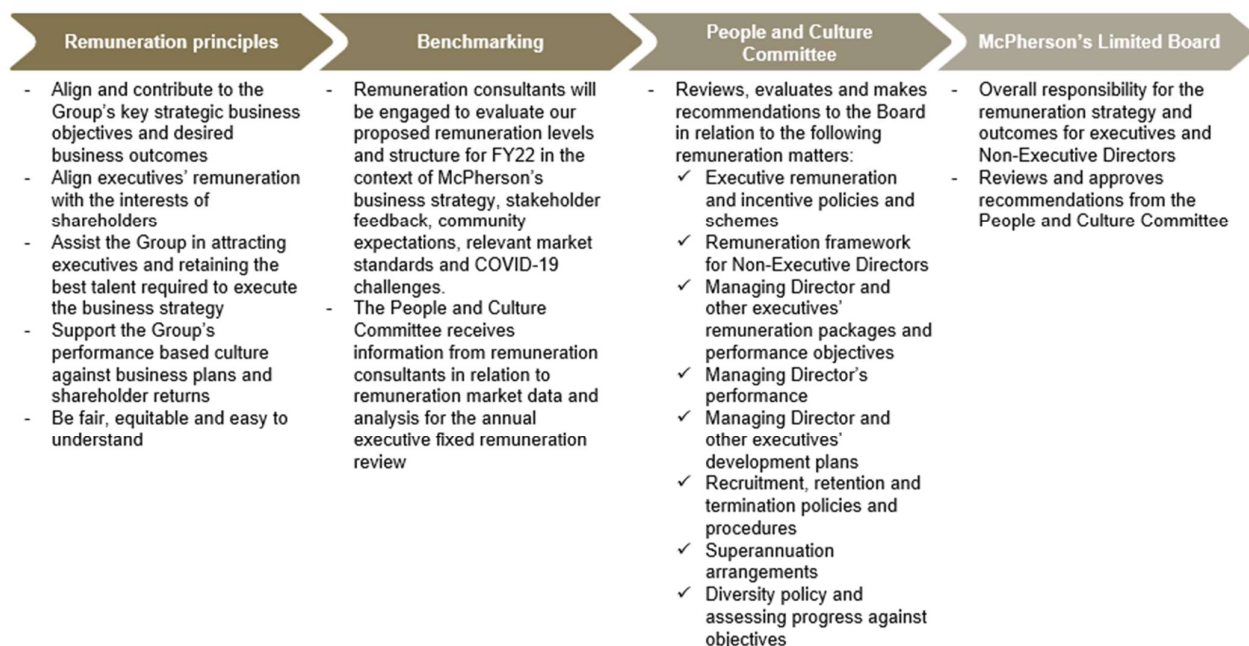
Remuneration structure for key management personnel

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:

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

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:

	FY21	FY20	FY19	FY18	FY17¹
Profit/(loss) after tax for the year from continuing operations (\$'000)	(5,041)	6,062	13,721	11,359	(387)
Profit after tax from continuing operations, excluding significant items (\$'000)	6,515	16,336	13,721	12,944	11,384
Basic earnings/(loss) per share (cents) from continuing operations	(4.2)	5.7	13.0	10.9	(0.4)
Basic earnings per share (cents), excluding significant items from continuing operations	5.4	15.3	13.0	12.4	11.0
Dividends declared for the relevant financial year (\$'000)	6,420	11,783	12,688	8,866	8,288
Dividend payout ratio as a percentage of profit / (loss) after tax for the year from continuing operations (%)	n/m²	194.4	92.5	78.1	n/m ²
Dividend payout ratio as a percentage of profit from continuing operations excluding significant items (%)	98.5	72.1	92.5	68.5	72.8
Increase / (decrease) in period end share price (%)	(60.3)	129.9	(29.3)	31.2	48.6
Total KMP incentives as percentage of profit / (loss) from continuing operations for the year (%)	-	11.5	2.7	5.8	(139.1)
Total KMP incentives as percentage of profit after tax from continuing operations excluding significant items (%)	-	4.3	2.7	5.1	4.7

1) The comparative numbers of the Group have been restated to show 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 FY21 is summarised in the following table:

Element	Purpose	Performance Metrics	Potential Value
Fixed Remuneration	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.
	<p>Managing Director Annual Performance Rights with a face value of \$100,000 to be granted in November 2021 and then in September of each year thereafter, conditional on shareholder approval.</p> <p>If Annual Performance Rights are not granted following shareholder approval, then the cash component of fixed remuneration will be increased by \$100,000 for the salary period from 1 April to 31 March.</p>	<p>Managing Director Annual Performance Rights will vest after three years (3) of the rights offer date providing Mr. Peck remains Managing Director.</p>	<p>Managing Director Potential value is subject to the rights vesting and dependent on the price of MCP's ordinary shares at the time of exercise.</p>
STI	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.	<p>Managing Director No STI entitlement in FY21</p> <hr/> <p>Other senior executives Group or divisional profit before tax (PBT) together with pre-determined significant role specific objectives.</p> <p>Short-term cash bonuses in relation to the achievement of specific outcomes associated with certain significant events.</p>	<p>Managing Director No STI entitlement in FY21</p> <hr/> <p>Other senior executives</p> <ul style="list-style-type: none"> • 50% of fixed remuneration • 40% of fixed remuneration for new members of the senior leadership team <p>At the discretion of the Board of Directors</p>
LTI	Alignment to long-term shareholder returns via the Performance Rights plan. Participants benefit from the vesting of Performance Rights if performance objectives are met.	<p>Managing Director No LTI entitlement in FY21</p> <hr/> <p>Former Managing Director</p> <ul style="list-style-type: none"> 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. <hr/> <p>Other senior executives 50% of vesting determined with reference to CAGR in EPS and 50% with reference to CAGR in TSR, each over three years.</p>	<p>Managing Director No STI entitlement in FY21</p> <hr/> <p>Former Managing Director \$1.0 million per annum in total comprising:</p> <ul style="list-style-type: none"> i. HLP – 40% of fixed remuneration ii. ELP – remaining balance of \$1 million per annum <hr/> <p>Other senior executives 40% of fixed remuneration</p>

(k) Remuneration Report (continued)

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

Short-term incentives (STI)

Each year the People and Culture Committee considers the appropriate targets and key performance indicators together with the level of payout if targets are met or exceeded.

The FY21 STI targets for senior executives and former Managing Director were structured as follows:

STI element target	Period	Criteria
(i) Financial target FY21 STI proportion: 25%	1H21	Group budgeted underlying profit before tax (PBT) outcomes for the financial year, excluding significant items, and compared with the prior year of the same period achieving between 90% and 110%.
(ii) Non-financial target* FY21 STI proportion: 25%		Achievement of specific role based key performance indicators, subject to the Group achieving at least 80% of budget 1H21 PBT.
(i) Financial target FY21 STI proportion: 25%	2H21	Group revised forecast profit before tax (RFP) outcomes for the financial year, excluding significant items, achieving between 90% and 110%.
(ii) Non-financial target* FY21 STI proportion: 25%		Achievement of specific role based key performance indicators, subject to the Group achieving at least 80% of 2H21 RFP.

* Or higher at the discretion of the Board of Directors in order to recognise the achievement of strategic initiatives

Assessment	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.
STI financial target	Based on the Group's profit performance in 2021, the People and Culture Committee has determined that the KMPs and other senior executives are not eligible for any STI in relation to element (i) as the Group underlying EBIT outcome in 2021 was below that reported in 2020 by 55.1%.
STI non-financial target	Based on the Group's achievement of pre-determined objectives in 2021, the People and Culture Committee has determined that the KMPs and other senior executives are not eligible for any STI in relation to element (ii).

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 People and Culture Committee is responsible for determining when such bonus payments are applicable and the amount to be paid.

(k) Remuneration Report (continued)

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

Short-term incentives (STI) (continued)

Specific STI performance metrics and outcomes for each KMP in FY21 are summarised in the table below:

KMP	Metrics	Potential STI outcomes	FY21 Outcomes
Managing Director	No STI entitlements in FY21		
Chief Financial Officer and Company Secretary	<p><u>1H21 Financial metrics</u></p> <p>(i) If <90% of prior year underlying PBT with reference to Group budget PBT (1H21): No STI payable</p> <p>(ii) If between 90% and 110% of prior year underlying PBT with reference to Group budget PBT (1H21): Pro-rata STI payable</p> <p>(iii) If 110% and above prior year underlying PBT with reference to Group budget PBT (1H21): Maximum target STI payable</p> <p><u>2H21 Financial metrics</u></p> <p>(i) If <90% of prior year underlying PBT with reference to Group RFP (2H21): No STI payable</p>	<p>Financial Pro-rata to target 25% of fixed remuneration</p> <p>Non-Financial 25% of fixed remuneration*</p>	<p>Financial Nil</p> <p>Non-Financial Nil</p>
Commercial Director ANZ	<p>(ii) If between 90% and 110% of prior year underlying PBT with reference to Group RFP (2H21): Pro-rata STI payable</p> <p>(iii) If 110% and above prior year underlying PBT with reference to Group RFP (2H21): Maximum target STI payable</p> <p><u>1H21 Non-financial metrics</u></p> <p>Achievement of role specific pre-determined objectives providing at least 80% of Group budget PBT (1H21) is achieved</p> <p><u>2H21 Non-financial metrics</u></p> <p>Achievement of role specific pre-determined objectives providing at least 80% of Group RFP (2H21) is achieved</p>	<p>Financial Pro-rata to target 25% of fixed remuneration</p> <p>Non-Financial 25% of fixed remuneration*</p>	<p>Financial Nil</p> <p>Non-Financial Nil</p>

* Or higher at the discretion of the Board of Directors in order to recognise the achievement of strategic initiatives

(k) Remuneration Report (continued)

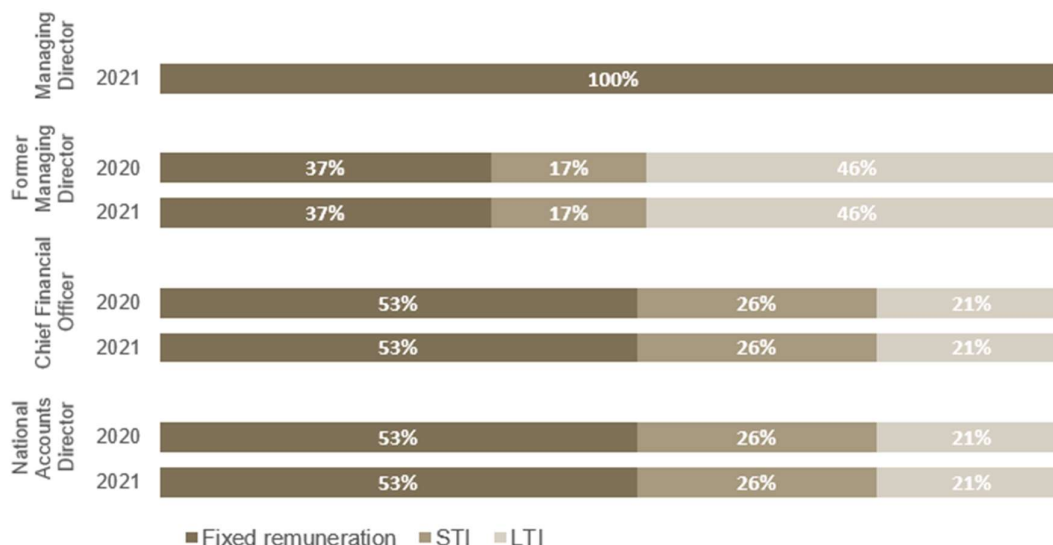
Principles used to determine the nature and amount of remuneration (continued)

Long-term incentives (LTI)

Purpose	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.
Performance Rights 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 – refer to page 34 for further information) are met and the executive is still employed by the Group at the end of the vesting period, or where not employed at the end of the vesting period is deemed to be a "good leaver" by the Board.
Participation	At the discretion of the People and Culture Committee and no individual has a contractual right to receive any guaranteed benefits.
Maximum LTI	<ul style="list-style-type: none"> Managing Director – \$100,000 for the salary period 1 April 2021 to 31 March 2022 Former Managing Director – \$1 million per annum Other senior executives – 40% of fixed remuneration
LTI outcomes in particular events	<p>Subject to the ASX Listing Rules, the Board may determine that a Right will become a Vested Right and may be exercised, <u>whether or not</u> 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"> The merger or consolidation of the Group into another entity occurs; A takeover bid is made in respect of the Group and the Board recommends acceptance to shareholders; A scheme of arrangement is made or undertaken in respect of the Group, and the Board in its absolute discretion determines exercise to be appropriate; Any event similar to those described above involving a change in ownership or control of the Group or all or substantial part of the assets of the Group; or Any other event as determined by the Board in its absolute discretion.

Further information regarding share-based compensation in the form of Performance Rights is contained later in the Remuneration Report on page 33.

The graph below shows the structure of the FY21 remuneration opportunity mix for KMP compared to FY20.



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

Voting and comments made at the Company's 2020 Annual General Meeting (AGM)

Of the total votes cast in relation to the adoption of the 2020 remuneration report by shareholders participating in the AGM and by proxy, 98.1% voted in favour of the resolution. Several general questions relating to remuneration and the 2020 remuneration report were asked by shareholders at the 2020 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 year are set out in the following tables.

2021	Short-term Benefits				Post employment Benefits	Long-term Benefits	Share-based Payments	Total \$
	Cash Salary & Fees ¹ \$	Cash Bonus ² \$	Non-monetary Benefits ³ \$	Termination Benefits \$	Superannuation \$	Long-Service Leave \$	Performance Rights \$	
Name								
Directors of McPherson's Limited								
G.A. Cubbin (Chairman)	150,247	-	-	-	14,274	-	-	164,521
L. McAllister ⁴ (Former Managing Director)	405,224	-	29,202	370,000	12,500	6,422	1,023,220 ⁷	1,846,568
J.M. McKellar	91,354	-	-	-	8,679	-	-	100,033
G.W. Peck ⁵ (Managing Director)	426,673	-	-	-	17,962	5,095	-	449,730
G.R. Pearce	75,730	-	-	-	7,194	-	-	82,924
A.J. Cook	80,071	-	-	-	7,607	-	-	87,678
Ari Mervis ⁶	27,865	-	-	-	2,647	-	-	30,512
Total Directors' Remuneration 2021	1,257,164	-	29,202	370,000	70,863	11,517	1,023,220	2,761,966
Other Group Key Management Personnel								
P. Witheridge	377,497	-	1,706	-	24,996	6,173	33,904	444,276
L. Pirozzi	295,658	-	-	-	25,000	4,416	28,246	353,320
Total Other Key Management Personnel Remuneration 2021	673,155	-	1,706	-	49,996	10,589	62,150	797,596
Total Remuneration 2021 – Group	1,930,319	-	30,908	370,000	120,859	22,106	1,085,370	3,559,562

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

² Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution. Refer page 30-32 for further information on bonuses awarded.

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

⁴ Mr. McAllister resigned effective 9 December 2020.

⁵ Mr. Peck's term as a Non-Executive Director ended on 9 December 2020. He was appointed Interim Chief Executive Officer & Managing Director on 10 December 2020. He was appointed Chief Executive Officer & Managing Director on 31 March 2021.

⁶ Mr Mervis was appointed as a Non-Executive Director on 16 February 2021.

⁷ Includes \$756,924 non-cash unvested performance rights retained upon the resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 14 December 2020.

(k) Remuneration Report (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

2020	Short-term Benefits				Post employment Benefits	Long-term Benefits	Share-based Payments	Total \$
	Cash Salary & Fees ¹ \$	Cash Bonus ² \$	Non-monetary Benefits ³ \$	Termination Benefits \$	Superannuation \$	Long-Service Leave \$	Performance Rights \$	
Name								
Directors of McPherson's Limited								
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. Cook	75,730	-	-	-	7,194	-	-	82,924
Total Directors' Remuneration 2020	1,186,531	342,250	58,404	-	70,449	12,777	267,462	1,937,873
Other Group Key Management Personnel								
P. Witheridge	372,999	197,825	20,472	-	24,996	6,190	38,143	660,625
L. Pirozzi	292,114	160,000	-	-	25,000	4,434	32,344	513,892
Total Other Key Management Personnel Remuneration 2020	665,113	357,825	20,472	-	49,996	10,624	70,487	1,174,517
Total Remuneration 2020 – Group	1,851,644	700,075	78,876	-	120,445	23,401	337,949	3,112,390

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.

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

² Excludes, where relevant, any part of the awarded bonus amount that was paid as a superannuation contribution. Refer page 30-32 for further information on bonuses awarded.

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

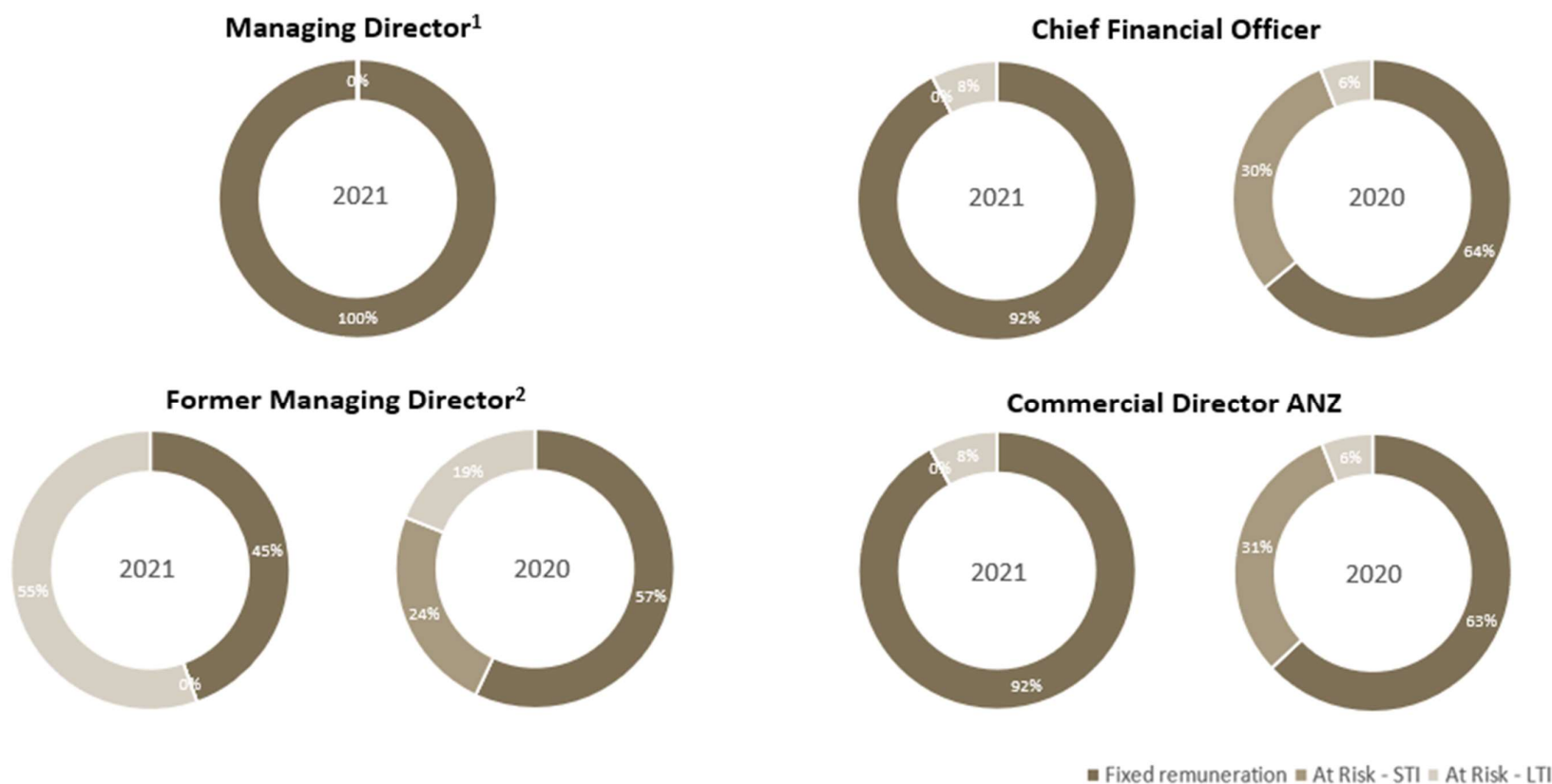
(k) Remuneration Report (continued)

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 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 FY21 and FY20, except in relation to the LTI element which is determined in accordance with AASB 2 Share-based Payment.



¹ Mr. Peck was appointed as Interim Chief Executive Officer & Managing Director on 10 December 2020. He was appointed Chief Executive Officer & Managing Director on 31 March 2021.

² The proportion of LTI is higher in FY21 because, as disclosed in the "Final Director's Interest Notice" provided to the ASX on 14 December 2020, Mr. McAllister retained his unvested performance rights upon his resignation on 9 December 2020. The non-cash expense of \$756,924 associated with these rights was expensed upon his resignation, in compliance with AASB 2 *Share-based Payment*.

(k) Remuneration Report (continued)

Details of remuneration (continued)

Performance based remuneration granted and forfeited during the year

The following table shows for each KMP how much of their FY21 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 Payment*.

Name	STI Cash Bonus			LTI Performance Rights		
	Target Opportunity \$	Awarded as % of Target Opportunity	Forfeited %	Value Granted \$	Value Exercised \$	Value Forfeited \$
Executive Director of McPherson's						
G. Peck ¹	-	-	-	-	-	-
L. McAllister ²	370,000	-	100%	577,850	-	294,410
Other key management personnel of the Group						
P. Witheridge	197,825	-	100%	97,750	-	61,446
L. Pirozzi	160,000	-	100%	80,155	-	53,922

¹ Mr. Peck was appointed as Interim Chief Executive Officer & Managing Director on 10 December 2020. He was appointed Chief Executive Officer & Managing Director on 31 March 2021.

² Mr. McAllister resigned on 9 December 2020.

(k) Remuneration Report (continued)

Details of remuneration (continued)

Summary of KMP Remuneration and KPI Objectives for FY21

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
G. Peck <i>Managing Director</i>	\$575,000 including super, plus \$100,000 in the form of Annual Performance Rights over ordinary shares	No STI entitlements in FY21	No LTI entitlements in FY21	Not applicable
L. McAllister <i>Former Managing Director</i>	\$740,000 including super \$50,000 motor vehicle allowance	Not applicable (resignation in December 2020)	Performance 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 10% per annum, measured on a compound basis over a 4 year performance period	Not applicable (resignation in December 2020)
P. Witheridge <i>Chief Financial Officer and Company Secretary</i>	\$395,650 including super	Target cash bonus of 50% of fixed remuneration, comprising 25% of fixed remuneration based on a financial metrics and 25% 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 of at least 3.0%, measured over a 3 year performance period; and (ii) 50% subject to an absolute "total shareholder return" hurdle of at least 8.0% per annum, measured on a compound basis over a 3 year performance period	Support the Senior Leadership Team in the assessment and execution of EPS accretive acquisition opportunities as they arise, including coordination of appropriate financing and approvals of such opportunities Ensure that the Group maintains a healthy balance sheet, with appropriate levels of financial covenant headroom within the Group's debt facilities Continue to be responsive to requests for information from the external investor, lender and stakeholder community with deep involvement in corporate communications to achieve this objective Provide stable and consistent leadership and direction to the Finance and IT teams, ensuring a strong culture of internal customer service Ensure IT development tasks and operations tasks are well prioritized, executed and communicated to the Senior Leadership Team

(k) Remuneration Report (continued)

Details of remuneration (continued)

Summary of KMP Remuneration and KPI Objectives for FY21 (continued)

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
L. Pirozzi <i>Commercial Director ANZ</i>	\$290,000 including super \$30,000 motor vehicle allowance	Target cash bonus of 50% of fixed remuneration (including motor vehicle allowance), comprising 25% of fixed remuneration based on a financial metrics and 25% 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 of at least 3.0%, measured over a 3 year performance period; and (ii) 50% subject to an absolute "total shareholder return" hurdle of at least 8.0% per annum, measured on a compound basis over a 3 year performance period	Lead channel expansion strategy in new channels and customers of MCP brands Continue to optimise customer investment strategies to foster growth in ANZ markets Deliver on profitability objectives by customer and by channel Continue to maintain and develop customer relationships Capability building Lead NZ execution strategy to drive long term sustainable growth Review commercial model to maintain relevance in market and against competitors Oversee the review of ROI of activations in markets to maximise profitability

(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.

Name	Term of agreement	Fixed remuneration including superannuation and motor vehicle benefits ¹	Termination
G. Peck <i>Managing Director</i>	Ongoing	\$675,000 ²	Contract may be terminated on 6 months' notice by either the Company or executive.
P. Witheridge <i>Chief Financial Officer and Company Secretary</i>	Ongoing	\$395,650	Contract may be terminated on 6 months' notice by the Company and on 3 months' notice by the executive.
L. Pirozzi <i>Commercial Director ANZ</i>	Ongoing	\$320,000	Contract may be terminated on 1 months' notice by either the Company or executive.
L. McAllister <i>Former Managing Director</i>	Resigned on 9 December 2020	\$790,000	Contract may be terminated on 6 months' notice by either the Company or executive. (resigned on 9 December 2020)

¹The annual fixed remuneration amounts quoted are as at 30 June 2021. They are reviewed annually by the People and Culture Committee.

² Including \$100,000 Annual Performance Rights.

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 to the Managing Director (Grant Peck) for the years from 2022 to 2025 will be sought, under ASX Listing Rule 10.14, at the Company's Annual General Meeting in November 2021.

Approval for the issue of Performance Rights granted to the former Managing Director (Laurie McAllister) 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	Grant Year	Vesting Hurdles	Vesting Period
High Level Performance Rights (HLP) and Performance Rights	HLP Former Managing 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
	Performance Rights Chief Financial Officer (and Company Secretary) and Commercial Director ANZ			
HLP	Former 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
		2021	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 Commercial Director ANZ	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
		2021	<u>First 50% of Rights</u> Zero Rights vesting at +3.0% Underlying EPS CAGR (or less), to 100% of Rights vesting at +8.0% (or higher) Underlying EPS CAGR	3 years
			<u>Remaining 50% of Rights</u> 25% of Rights vesting at +8.0% TSR CAGR (at least), to 100% of Rights vesting at +13.0% (or higher) TSR CAGR	3 years
Exceptional Level Performance Rights (ELP)	Former 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
		2021	25% of Rights vesting at +10.0% 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 People and Culture 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 former 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 at 30 June 2021 are set out in the following table:

Name	Financial year of grant ¹	Financial year in which rights may vest	Number of rights granted	Fair value of rights at grant date ²	Face value of rights at grant date ³	Number of rights vested during the year	Vested %	Number of rights forfeited during the year	Forfeited %
L. McAllister									
HLP	2018	2021	235,000	\$294,410	\$350,000	-	-	235,000	100
	2019	2022	214,000	\$276,060	\$350,000	-	-	-	-
	2020	2023	182,000	\$404,040	\$400,000	-	-	-	-
	2021	2024	127,000	\$335,280	\$400,000	-	-	-	-
ELP	2017	2021	590,000	\$212,990	\$650,000	590,000	100	-	-
	2018	2022	436,000	\$245,468	\$650,000	-	-	-	-
	2019	2023	398,000	\$172,060	\$650,000	-	-	-	-
	2020	2024	273,000	\$414,960	\$600,000	-	-	-	-
	2021	2025	191,000	\$242,570	\$600,000	-	-	-	-
P. Witheridge									
	2018	2021	49,000	\$61,446	\$73,129	-	-	49,000	100
	2019	2022	89,000	\$82,058	\$146,258	-	-	-	-
	2020	2023	72,000	\$133,920	\$158,260	-	-	-	-
	2021	2024	50,000	\$102,750	\$158,260	-	-	-	-
L. Pirozzi									
	2018	2021	43,000	\$53,922	\$64,035	-	-	43,000	100
	2019	2022	78,000	\$71,916	\$128,070	-	-	-	-
	2020	2023	58,000	\$107,880	\$128,070	-	-	-	-
	2021	2024	41,000	\$84,255	\$128,070	-	-	-	-

¹This table does not include the Managing Director's \$100,000 Annual Performance Rights for the salary year from 1 April 2021 to 31 March 2022, which are subject to shareholders' approval in November 2021.

²The fair value at grant date is calculated in accordance with AASB 2 *Share-based Payment*.

³The 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	Financial year of grant before 2019 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 Financial year of grant 2019 onwards 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 KMP¹

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
L. McAllister Commencement Performance rights	213,000	-	-	-	213,000	213,000	-
HLP	631,000	127,000	-	(235,000)	523,000	-	523,000
ELP	1,697,000	191,000	-	-	1,888,000	590,000	1,298,000
P. Witheridge Performance Rights	210,000	50,000	-	(49,000)	211,000	-	211,000
L. Pirozzi Performance Rights	179,000	41,000	-	(43,000)	177,000	-	177,000

¹ This table does not include the Managing Director's \$100,000 Annual Performance Rights for the salary year from 1 April 2021 to 31 March 2022, which are subject to shareholders' approval in November 2021.

Shares held by key management personnel

Name	Balance at the start of the year	Other non-remuneration changes during the year	Balance at the end of the year
Directors of McPherson's Limited			
G.A. Cubbin	270,000	13,953	283,953
L. McAllister	-	-	-
J.M. McKellar	6,357	712	7,069
G.W. Peck	14,400	41,000	55,400
G.R. Pearce	695,939	(40,000)	655,939
A.J. Cook	12,000	3,500	15,500
A. Mervis	-	150,000	150,000
Other key management personnel			
P. Witheridge	20,000	40,000	60,000
L. Pirozzi	-	-	-

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.

Eligibility	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.
Shares	Granted up to \$1,000 worth of fully paid ordinary shares in the Group annually for no cash consideration. The number of shares to be 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 Securities Exchange during the week ending on 11 August 2021. The shares are to be issued to employees shortly after that date (2020: 12 August 2020).
Conditions attached to the shares	<ul style="list-style-type: none"> The shares granted in 2020 vested on 30 July 2021, provided the employee remains employed to the Group. 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.

(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 FY22 on the same basis as outlined above.

	12 August 2021	12 August 2020
Number of shares issued under the Employee Share Scheme	244,640*	88,288

* To be issued subsequent to the date of this report

The number of shares to be issued to participants of the FY21 Employee Share Scheme was calculated based on the \$1,000 offer amount divided by the weighted average price of \$1.136 (2020: \$2.801) at which the company's shares were traded on the Australian Securities Exchange during the week ending on 11 August 2021.

Non-Executive Directors

Fees	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.
Shareholder approval for Directors' fees	<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 2021 totalled \$507,893 (2020: \$523,859).</p>
Incentives	Non-executive Directors are not entitled to participate in any incentive scheme, nor are they eligible to receive share options or performance rights.
Review by the People and Culture Committee	The remuneration of individual non-executive Directors was last reviewed by the People and Culture 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. The remuneration of individual Non-Executive Directors have not increased since then, except for increases in the Super Guarantee Contribution (SGC).
Additional fees	<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 People and Culture Committee also receives an additional fee, however the other members of that committee do not.</p>
Superannuation	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.
Directors' Deeds	<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 2021 and continue to apply at the date of this report:

	2021	2020
Base fees		
Chairman	\$144,243	\$144,243
Other Non-Executive Directors	\$75,730	\$75,730
Additional fees		
Audit, Risk Management and Compliance Committee (Chair)	\$9,620	\$9,620
Audit, Risk Management and Compliance Committee (Member)	\$6,006	\$6,006
People and Culture Committee (Chair)	\$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:

- ▶ The Group's owns 10,000,000 shares in Aware Environmental Limited (AEL), which represents 10.7% of the capital of AEL at 30 June 2021. Subsequent to 30 June 2021, AEL undertook a series of restructuring transactions which resulted in the Group's interest in the capital of AEL reducing to approximately 7.4%.
- ▶ Mr. Geoffrey Pearce is a Director and a significant shareholder of AEL.
- ▶ In FY21, the Group made trade purchases of \$9,122,000 with AEL (FY20: \$5,896,000).
- ▶ 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 comprise vested performance rights and are as follows:

Date options granted	Expiry date	Number of shares under option
21 November 2016	1 November 2024	213,000
21 November 2016	25 September 2025	590,000

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

No shares of McPherson's Limited have been issued from the exercise of vested performance rights or options during the year ended 30 June 2021 or up to the date of this report.

(m) Indemnification and insurance of officers

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

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

	2021 \$	2020 \$
Other services		
PricewaterhouseCoopers Australian firm		
Working capital review	38,256	-
Inventory observation for Global Therapeutics acquisition	15,512	-
Consumables review	-	50,000
Total remuneration for other services	53,768	50,000
Total remuneration for non-audit services	53,768	50,000

A copy of the auditor's independence as required under section 307C of the *Corporations Act 2001* is set out on page 41.

(q) Rounding

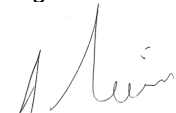
The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and, in accordance with that instrument, all financial information in this Directors' Report and the Financial Report have been rounded to the nearest thousand dollars unless otherwise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

- ▶ A.J. Cook (Chair of the Audit, Risk Management and Compliance Committee)
- ▶ G.A. Cubbin
- ▶ J.M. McKellar

Signed in accordance with a resolution of the Directors:



Ari Mervis
Chairman
18 August 2021



G. W. Peck
Managing Director
18 August 2021



Auditor's Independence Declaration

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink that reads 'P. J. Carney'.

Paddy Carney
Partner
PricewaterhouseCoopers

Sydney
18 August 2021

PricewaterhouseCoopers, ABN 52 780 433 757

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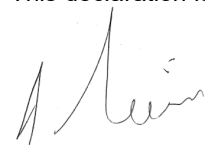
We, Ari Mervis and Grant W. Peck, being two of the Directors of McPherson's Limited, declare that in the Directors' opinion:

- (a) the financial statements and notes as set out on pages 49 to 111 and the remuneration report on pages 14 to 38 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 2021 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.



Ari Mervis
Chairman
18 August 2021



G. W. Peck
Managing Director
18 August 2021



Independent auditor's report

To the members of McPherson's Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2021
- 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 significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

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

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



Materiality	Audit scope
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$0.5 million, which represents approximately 5% of the Group's profit before tax adjusted for significant items (note 3 of the financial statements). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We also adjusted for significant items as they are unusual or infrequently occurring items impacting profit and loss. We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. 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. We also performed procedures in relation to specific transactions and balances of the Group's other operations.

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. We communicated the key audit matters to the Audit, Risk Management and Compliance Committee.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of goodwill (carrying value of \$33.6 million) and brand names (carrying value of \$53.7 million) (Refer to note 15)</p> <p>During the annual review for impairment, the Group determined the recoverable amount for each Cash Generating Units (CGUs) using discounted cash flow valuation models which relied on significant assumptions and estimates of future trading performance.</p> <p>The carrying value of goodwill and brand names was a key audit matter due to its size and the judgements involved in estimating the cash flow forecasts.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Developed an understanding of and evaluated the Group's processes and controls relating to annual impairment tests of the CGUs in light of the requirements of Australian Accounting Standards; • Assessed whether the Group's determination of CGUs was consistent with our understanding of the nature of the Group's operations; • Assessed whether the CGUs appropriately included all assets, liabilities and cash flows directly attributable to each CGU; • Compared the Group's forecast cash flows in the models to Board approved budgets, selected externally available economic data and historical actual results; • Assessed the Group's historical ability to forecast cash flows by comparing budgets to reported actual results for the past three years; • Together with PwC valuation experts, assessed the valuation methodology and mathematical accuracy of the models and compared the discount rate and growth rate assumptions to historical company data and market observable inputs; and • Evaluated the adequacy of the disclosures made in the financial report, in light of the requirements of Australian Accounting Standards.
<p>Provision for inventory obsolescence (\$8.2 million) (Refer to note 10)</p> <p>The Group recognised gross inventories of \$56.3 million with a provision of \$8.2 million for inventory obsolescence.</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</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Developed an understanding of and evaluated the Group's processes and controls relating to the estimation of the provision, including consistency of approach with prior years; • Tested the mathematical accuracy and completeness of the provision against inventory on hand; • Assessed the inventory provision estimate, in particular the identification and valuation of inventory considered to be at risk. For a sample of inventory we: <ul style="list-style-type: none"> ◦ compared inventory on hand to forecast sales and evaluated management's assessment of provisioning required; and ◦ compared forecast sales to recent performance

Key audit matter	How our audit addressed the key audit matter
<p>recognised on the Group's consolidated balance sheet this was a key audit matter.</p>	<ul style="list-style-type: none"> Evaluated the adequacy of the disclosures made in the financial report, in light of the requirements of Australian Accounting Standards.
<p>Impairment of investments (Refer to note 12 and 17)</p> <p>Over recent years the Group has expanded its business through investing in Joint Ventures and other equity investments.</p> <p>The Group is required to make significant judgements to estimate the recoverable amounts of these investments based on expected future performance.</p> <p>In the current year an impairment charge of \$6.0 million was recognised in Other Comprehensive Income (OCI) in respect of investments in Financial assets at Fair Value through Other Comprehensive Income (FVOCI) and \$5.0 million impairment was recognised in profit and loss in respect of investments in Joint Ventures.</p> <p>Given the magnitude of the impairment during the year this was a key audit matter.</p>	<p>Following the impairment recognised by the Group for investments in the Joint Ventures and other equity investments, we have performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> Obtained an understanding of the current year performance against historical forecasts; Obtained an understanding of the expected future performance through assessment of budgets and discussions with relevant personnel; and Read selected minutes of Board of Directors meetings. <p>We also evaluated the adequacy of disclosures made in notes 12 and 17 of the financial report, in light of the requirements of Australian Accounting Standards.</p>
<p>Business combination (Refer to note 18)</p> <p>On 30 November 2020, the Group acquired the Global Therapeutics business for a total purchase consideration of \$27.5 million in cash. The details of the acquisition are disclosed in note 18 of the financial report.</p> <p>The acquisition of the Global Therapeutics business has involved consideration as to the acquisition date and the recognition and measurement of identifiable assets acquired and liabilities assumed as at that date. Included in the assets acquired were indefinite life brand name intangible assets that were valued by the Group at \$5.3 million and customer relationships that were valued by the Group at \$2.7 million.</p> <p>Goodwill arising on the acquisition of Global Therapeutics business was \$17.9 million.</p> <p>We considered this a key audit matter given the financial significance of the acquisition and the judgement required by the Group in accounting for the acquisition, including estimating the fair value of the acquired assets and liabilities recognised at acquisition date.</p> <p>The Group was assisted by an external valuation expert in this process.</p>	<p>Our procedures in relation to the accounting for the acquisition included, amongst others:</p> <ul style="list-style-type: none"> Evaluated the Group's accounting by considering the requirements of Australian Accounting Standards, key transaction agreements, our understanding of the business acquired and its industry, the sales and purchase agreement and selected minutes of the Board of Directors; Agreed the initial consideration paid for the acquisition to supporting documentation; Together with PwC valuation experts, assessed: <ul style="list-style-type: none"> the fair values of the acquired assets and liabilities in accordance with Australian Accounting Standard, including assessing key assumptions used in the valuation model against observable market data; the valuation methodology adopted and mathematical accuracy of the valuation conventions; the competence and capability of management's expert; and recognition of transaction costs. Tested the mathematical accuracy of the Group's calculation of the resulting goodwill arising from the purchase price allocation. Assessed the accuracy and completeness of the business combination disclosures in the financial Statements, in light of the requirements of Australian Accounting Standards.

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 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express 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.

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.

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. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 14 to 38 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

A stylized, handwritten-style logo for PricewaterhouseCoopers.

PricewaterhouseCoopers

A handwritten signature in black ink, reading 'P. J. Carney'.

Paddy Carney
Partner

Sydney
18 August 2021

	Note	2021 \$'000	2020 \$'000
Revenue			
Sales revenue		200,495	222,186
Other income		274	364
Total revenue and other income		200,769	222,550
Expenses			
Materials and consumables		(113,017)	(116,109)
Employee costs		(38,137)	(35,249)
Advertising and promotions		(20,918)	(20,100)
Cartage and freight		(6,035)	(5,873)
Third party warehousing		(2,477)	(2,262)
Rental expenses		(348)	(353)
Other expenses		(11,239)	(10,677)
Takeover response advisory fees	3	(1,941)	-
Acquisition costs in relation to the Global Therapeutics business	3,18	(930)	-
Release of contingent consideration	3,17	1,829	-
Impairment of investments in joint ventures, shareholder loans and receivables	3,17	(5,001)	(204)
Impairment of intangible assets	3,15	-	(8,517)
Depreciation		(4,458)	(4,418)
Amortisation		(623)	(479)
Operating (loss) / profit before finance costs and income tax		(2,526)	18,309
Interest income	20	12	302
Borrowing costs	20	(1,199)	(1,455)
Net finance costs		(1,187)	(1,153)
Share of net loss of joint ventures accounted for using the equity method	17	(749)	(3,894)
(Loss) / Profit before income tax		(4,462)	13,262
Income tax expense	6	(579)	(7,200)
(Loss) / Profit for the year after tax		(5,041)	6,062

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

	Note	2021 \$'000	2020 \$'000
(Loss) / Profit for the year		(5,041)	6,062
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges	24	(382)	(1,178)
Exchange differences on translation of foreign operations	24	(139)	52
Income tax benefit relating to these items	24	121	349
<i>Items that will not be reclassified to profit or loss</i>			
Changes in fair value of equity instruments at fair value through other comprehensive income	2(e),24	(6,000)	-
Other comprehensive income / (expense) for the year		(6,400)	(777)
Total comprehensive income / (expense) for the year		(11,441)	5,285

		Cents	Cents
Earnings per share			
Basic earnings / (loss) per share	29	(4.2)	5.7
Diluted earnings / (loss) per share	29	(4.1)	5.7

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

	Note	2021 \$'000	2020 \$'000
Current assets			
Cash and cash equivalents	8	7,354	7,149
Trade and other receivables	9	37,625	46,695
Inventories	10	48,100	47,086
Derivative financial instruments	11	16	-
Current tax asset		1,080	-
Total current assets		94,175	100,930
Non-current assets			
Financial assets at fair value through other comprehensive income	12	-	6,000
Property, plant and equipment	13	6,439	6,259
Right-of-use assets	14	3,456	5,034
Other receivables		-	307
Intangible assets	15	90,540	64,713
Deferred tax assets	16	275	189
Loan receivable from joint ventures	17	-	1,457
Investment in joint ventures	17	111	1,909
Total non-current assets		100,821	85,868
Total assets		194,996	186,798
Current liabilities			
Trade and other payables	19	42,043	49,858
Lease liabilities		4,360	4,507
Provisions	21	6,953	7,910
Derivative financial instruments	11	992	570
Current tax liabilities		48	4,291
Total current liabilities		54,396	67,136
Non-current liabilities			
Borrowings	20	15,773	16,377
Lease liabilities		796	3,785
Provisions	21	881	732
Deferred tax liabilities	22	8,176	6,718
Derivative financial instruments	11	20	45
Contingent consideration	17	-	1,776
Total non-current liabilities		25,646	29,433
Total liabilities		80,042	96,569
Net assets		114,954	90,229
Equity			
Contributed equity	23	206,363	159,444
Reserves	24	(803)	4,342
Accumulated losses	24	(90,606)	(73,557)
Total equity		114,954	90,229

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
Balance at 1 July 2020		159,444	4,342	(73,557)	90,229
Loss for the year		-	-	(5,041)	(5,041)
Other comprehensive income		-	(6,400)	-	(6,400)
Total comprehensive income		-	(6,400)	(5,041)	(11,441)
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	23	46,672	-	-	46,672
Dividends provided for or paid	4	-	-	(12,008)	(12,008)
Shares vested and transferred to employees	23	247	(247)	-	-
Share-based payment transactions with employees	25	-	1,502	-	1,502
Total transactions with shareholders		46,919	1,255	(12,008)	36,166
Balance at 30 June 2021		206,363	(803)	(90,606)	114,954

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 30 June 2019		157,751	4,674	(65,897)	96,528
Adoption of new AASB 16 Leases		-	-	(3,061)	(3,061)
Balance at 1 July 2019		157,751	4,674	(68,958)	93,467
Profit for the year		-	-	6,062	6,062
Other comprehensive income		-	(777)	-	(777)
Total comprehensive income		-	(777)	6,062	5,285
<i>Transactions with shareholders</i>					
Shares issued, net of transaction costs and tax	24	1,480	-	-	1,480
Dividends provided for or paid	4	-	-	(10,661)	(10,661)
Shares vested and transferred to employees	24	213	(213)	-	-
Share-based payment transactions with employees	25	-	658	-	658
Total transactions with shareholders		1,693	445	(10,661)	(8,523)
Balance at 30 June 2020		159,444	4,342	(73,557)	90,229

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

	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts from customers, inclusive of GST		232,524	233,863
Payments to suppliers and employees, inclusive of GST		(222,495)	(207,352)
Interest received		42	63
Interest and borrowing costs paid		(1,086)	(1,291)
Income taxes paid		(6,291)	(5,951)
Net cash inflows from operating activities	33	2,694	19,332
Cash flows from investing activities			
Payments for financial assets at fair value through OCI		-	(3,000)
Payments for purchase of property, plant and equipment		(1,885)	(1,745)
Payments for purchase of other intangible assets		(641)	(71)
Payments for acquisition of Global Therapeutics	18	(27,542)	-
Payments for acquisition costs	18	(877)	-
Payments for acquisition of joint ventures		-	(630)
Loans to joint ventures		(856)	(2,698)
Net cash (outflows) from investing activities		(31,801)	(8,144)
Cash flows from financing activities			
Proceeds from issuance of shares	23	45,912	-
Share issue transaction costs	23	(1,349)	(23)
Proceeds from borrowings		95,563	61,775
Repayment of borrowings		(96,168)	(63,334)
Repayment of lease liabilities		(4,238)	(3,767)
Dividends paid		(10,303)	(9,159)
Net cash inflow / (outflows) from financing activities		29,417	(14,508)
Net (decrease) / increase in cash held		310	(3,320)
Cash at beginning of financial year		7,149	10,472
Effects of exchange rate changes		(105)	(3)
Cash held at end of financial year	8	7,354	7,149

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 adopted by the Group

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. These new or amended Accounting Standards and Interpretations did not result in any significant adjustments to the amounts recognised or disclosures in these consolidated financial statements, and are not expected to affect significantly subsequent reporting periods. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

International Financial Reporting Standards Interpretations Committee final agenda decisions not yet adopted

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision titled *Configuration or customisation costs in a cloud computing arrangement*. The decision discusses whether configuration or customisation expenditure relating to cloud computing arrangements is able to be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Group's accounting policy has historically been to capitalise all costs related to cloud computing arrangements as intangible assets in the Statement of Financial Position.

The adoption of this IFRIC agenda decision could result in a reclassification of these intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Comprehensive Income, impacting both the current and prior periods presented.

The Group has assessed that the impact of this IFRIC agenda decision is not material and has therefore not adopted this IFRIC agenda decision in the year ended 30 June 2021.

(b) New accounting policy

Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

The Group amortises customer relationships with a finite useful life using the straight-line method over 8 years, based on historical customer attrition rate and subject to an annual review.

1. Summary of significant accounting policies (continued)

(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

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 that are reasonably certain 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) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

The Group amortises customer relationships with a finite useful life using the straight-line method over 8 years, based on historical customer attrition rate and subject to an annual review.

(iv) 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. Capitalised costs include external direct costs of materials and services, 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 only include those costs directly attributable to the development phase and are only recognised where the Group has an intention and ability to use the asset.

(v) 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.²

(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 and 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.

Valuation of acquired brand names and customer relationships under a business combination

The fair value of brand names and customer relationships that were acquired as part of the acquisition of the Global Therapeutics business is determined using market value valuation techniques such as the relief-from-royalty method and the excess earnings method, based on forecasts and market conditions existing at acquisition date.

Estimated recoverable amount of goodwill and indefinite lived brand names

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

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 based on projected sales volumes and sell prices.

Investments in joint ventures

The recoverability of the investments in joint ventures and receivables from joint ventures are determined based on the net asset position of the joint ventures or a value-in-use calculation.

The value-in-use calculations are based on budgeted cash flow projections for a period of two to five years. 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 post-tax cash flows.

1. Summary of significant accounting policies (continued)**(ac) Critical accounting estimates and assumptions (continued)***Financial asset at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income (FVOCI) 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.

The recoverability of the FVOCI is determined based on the net asset position of the investee, any non-binding indicative offer from a third party or a value-in-use calculation should the net asset position of the investee not exceed the carrying amount of FVOCI.

The value-in-use calculations are based on cash flow projections based on financial budgets for 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 FVOCI, 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	2021 \$'000	2020 \$'000
Financial assets			
Cash and cash equivalents	8	7,354	7,149
Trade and other receivables	9	37,625	46,695
Derivatives financial instruments	11	16	-
Financial assets at fair value through other comprehensive income	12	-	6,000
Loan receivable from joint ventures	17(b)	-	1,457
Total financial assets		44,995	61,301
Financial liabilities			
Trade and other payables	19	42,043	49,858
Borrowings	20	15,773	16,377
Lease liabilities		5,156	8,292
Derivatives financial instruments	11	1,012	615
Contingent consideration	17	-	1,776
Total financial liabilities		63,984	76,918

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 of inventory purchases in USD, for twelve months. At balance date, 100% (2020: 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 2021 was 0.7273 (2020: 0.6590).

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
30 June 2021						
Trade receivables	207	-	-	-	13	-
Trade payables	93	104	93	154	-	367
Forward foreign exchange contracts - buy foreign currency	38,476	-	-	-	-	-
Foreign currency options - buy foreign currency	31,692	-	-	-	-	-
30 June 2020						
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	-	-	-	-	-

Group sensitivity

Based on the financial instruments held at 30 June 2021, had the Australian dollar weakened/strengthened by 5% against other foreign currencies at that date, with all other variables held constant, it is estimated that equity would have been \$1,738,953 higher / \$(1,204,045) lower (2020: \$905,443 higher / \$(1,348,409) 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 2021, the Group's debt at variable rates are:

	Weighted average interest rate	Balance \$'000	% of total loans
2021			
Bank loans at variable rate	1.1%	16,000	100%
Interest rate swaps (notional principal amount)	1.3%	(15,000)	
Net exposure to cash flow interest rate risk		1,000	
2020			
Bank loans at variable rate	1.1%	16,667	100%
Interest rate swaps (notional principal amount)	1.3%	(15,000)	
Net exposure to cash flow interest rate risk		1,667	

(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 2021 is determined as follows. The expected credit losses below also incorporate forward looking information.

2021 \$'000	Neither past due nor impaired	Less than 30 days	30 to 59 days	60 to 89 days	90 to 119 days	120 days or more	Total
Gross carrying amount	24,638	7,347	300	374	429	108	33,196
Loss allowance provision	-	-	-	-	-	8	8
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	7.5%	0.0%

Credit risk concentration

Three (2020: three) external customers represent \$21,053,927 (2020: \$27,537,966), which individually amount to 10% or more of the Group's closing receivables. These debtor balances are in relation to the Australian business.

2. Financial risk management (continued)**(d) Liquidity risk****Financing Arrangements**

The Group has access to the following undrawn borrowing facilities at the end of the reporting period:

Unused at balance date at floating rate

Bank loans expiring within one year
Bank loans expiring beyond one year

Total undrawn borrowing facilities

	2021 \$'000	2020 \$'000
	-	-
	34,000	33,334
Total undrawn borrowing facilities	34,000	33,334

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.

30 June 2021	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
Non-derivatives						
Payables	42,043	-	-	-	42,043	42,043
Borrowings	176	16,176	-	-	16,352	15,773
Lease liabilities	4,204	999	391	53	5,647	5,156
Total non-derivative financial liabilities	46,423	17,175	391	53	64,042	62,972
Derivatives						
Forward foreign exchange contracts – inflow	(38,476)	-	-	-	(38,476)	(38,476)
Forward foreign exchange contracts – outflow	38,721	-	-	-	38,721	38,721
	245	-	-	-	245	245
Foreign currency options	709	-	-	-	709	709
Interest rate contracts	34	31	-	-	65	65
Total derivative financial liabilities	988	31	-	-	1,019	1,019

2. Financial risk management (continued)**(d) Liquidity risk (continued)***Maturity profile of the Group's borrowings (continued)*

30 June 2020	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
Non-derivatives						
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
Total non-derivative financial liabilities	54,548	3,669	17,118	214	75,549	74,527
Derivatives						
Forward foreign exchange contracts – inflow	(31,698)	-	-	-	(31,698)	(31,698)
Forward foreign exchange contracts – outflow	31,969	-	-	-	31,969	31,969
	271	-	-	-	271	271
Foreign currency options	279	-	-	-	279	279
Interest rate contracts	20	24	21	-	65	65
Total derivative financial liabilities	570	24	21	-	615	615

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 2021 and 30 June 2020 on a recurring basis:

Recurring fair value measurements	30 June 2021				30 June 2020			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value								
Derivative financial instruments	-	16	-	16	-	-	-	-
Financial assets through OCI	-	-	-	-	-	-	6,000	6,000
Total financial assets at fair value	-	16	-	16	-	-	6,000	6,000

Recurring fair value measurements	30 June 2021				30 June 2020			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities at fair value								
Derivative financial instruments	-	(1,012)	-	(1,012)	-	(615)	-	(615)
Total financial liabilities at fair value	-	(1,012)	-	(1,012)	-	(615)	-	(615)

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 instruments as at 30 June 2021.

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, were classified as Level 3 instruments at 30 June 2020 as the timing of cash flows and discount rates were significant non-observable inputs.

The adverse impact of the current COVID-19 related downturn in demand from Chinese consumers on our supplier Aware Environmental Limited's (AEL) customer base has resulted in a deterioration in AEL's financial outlook in the medium term. Consequently, following a recapitalisation by AEL to mitigate liquidity concerns, McPherson's has fully impaired its \$6.0 million investment in AEL at 30 June 2021.

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 2021		30 June 2020	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Opening balance	6,000	-	2,934	-
Acquisitions	-	-	3,000	-
Unrecognised gain on acquisition	-	-	-	-
Fair value gains / (losses)	-	-	66	-
Maturities, disposals and interest	-	-	-	-
Impairment	(6,000)	-	-	-
Closing balance	-	-	6,000	-

3. Significant Items

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

	2021 \$'000	2020 \$'000
(i) Inventory provision for hand sanitisers	6,734	-
Less applicable income tax benefit	(1,927)	-
	4,807	-
(ii) Impairment of investments in joint ventures, shareholder loans and receivables	5,001	204
Less applicable income tax benefit	(168)	(61)
	4,833	143
(iii) Takeover response advisory fees	1,941	-
Less applicable income tax benefit	(583)	-
	1,358	-
(iv) Acquisition costs in relation to Fusion Health and Oriental Botanicals brands	930	-
Less applicable income tax benefit	(16)	-
	914	-
(v) Employee costs for the resignation of the Managing Director ¹	1,517	-
Less applicable income tax benefit	(228)	-
	1,289	-
(vi) Due diligence costs on other acquisition targets	262	-
Less applicable income tax benefit	(78)	-
	184	-
(vii) Release of contingent consideration for the My Kart joint venture	(1,829)	-
Less applicable income tax expense	-	-
	(1,829)	-
(viii) Impairment of A'kin and Moosehead brand names	-	8,517
Less applicable income tax benefit	-	(358)
	-	8,159
(ix) Share of net loss from the Kotia joint venture relating to the impairment of goodwill and the release of earn out liability	-	1,972
Less applicable income tax benefit	-	-
	-	1,972
Total significant items before tax	14,556	10,693
Less applicable income tax benefits	(3,000)	(419)
Total significant items after income tax	11,556	10,274

¹ Include \$756,924 non-cash expense for unvested performance rights retained upon resignation on 9 December 2020, in compliance with AASB 2 *Share-based Payment*.

4. Dividends

Details of dividends declared during the year ended 30 June 2021 are as follows:

	2021 \$'000	2020 \$'000
Final 30 June 2020 dividend of 7.0 cents per fully paid share (2019: 6.0 cents per fully paid share) fully franked at 30%	7,514	6,387
Interim 2021 ordinary dividend of 3.5 cents per fully paid share (2020: 4.0 cents per fully paid share) fully franked at 30%	4,494	4,274
Total dividends	12,008	10,661
Dividends not recognised at year end Since the 2021 financial year end, the Directors have declared a fully franked final dividend of 1.5 cents per fully paid share (2020: 7.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 23 September 2021 but not recognised as a liability at year end.	1,926	7,509
Franked Dividends Franked dividends paid after 30 June 2021 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 2021. Franking credits available for subsequent financial years based on a tax rate of 30%	22,165	24,470

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 will not be offering a DRP for the final ordinary dividend.

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 of approximately \$96,182,119 (2020: \$133,421,377) were derived from three (2020: four) external customers, which individually amount to 10% or more of the Group's revenue. 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.

Segment results and assets

	Australia \$000	New Zealand \$000	Rest of the World \$000	Inter-segment eliminations \$000	Consolidated \$000
2021					
Sales to external customers	185,946	10,441	4,108	-	200,495
Inter-segment sales	4,335	-	90	(4,425)	-
Total sales revenue	190,281	10,441	4,198	(4,425)	200,495
Other income (excluding interest)	1	41	232	-	274
Total segment revenue and other income (excluding interest)	190,282	10,482	4,430	(4,425)	200,769
EBITDA before significant items	15,679	52	630	-	16,361
Depreciation and amortisation expense	(4,236)	(314)	(530)	-	(5,080)
Segment result before significant items	11,443	(262)	100	-	11,281
Significant items before tax	(13,980)	(576)	-	-	(14,556)
Segment result including significant items before tax	(2,537)	(838)	100	-	(3,275)
Net borrowing costs					(1,187)
Loss before income tax					(4,462)
Income tax expense					(579)
Loss after income tax					(5,041)
Segment assets	168,885	1,888	24,223	-	194,996

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

	Australia \$000	New Zealand \$000	Rest of the World \$000	Inter-segment eliminations \$000	Consolidated \$000
2020					
Sales to external customers	207,391	8,989	5,806	-	222,186
Inter-segment sales	3,424	-	1,317	(4,741)	-
Total sales revenue	210,815	8,989	7,123	(4,741)	222,186
Other income (excluding interest)	9	118	237	-	364
Total segment revenue and other income (excluding interest)	210,824	9,107	7,360	(4,741)	222,550
EBITDA before significant items	30,515	(588)	380	-	30,307
Depreciation and amortisation expense	(4,026)	(327)	(544)	-	(4,897)
Segment result before significant items	26,489	(915)	(164)	-	25,410
Significant items before tax	(10,693)	-	-	-	(10,693)
Segment result including significant items before tax	15,796	(915)	(164)	-	14,717
Net borrowing costs					(1,455)
Profit before income tax					13,262
Income tax expense					(7,200)
Profit after income tax					6,062
Segment assets	158,863	3,204	24,731	-	186,798

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

	Note	2021 \$'000	2020 \$'000
Current tax		1,029	8,343
Deferred tax		(565)	(389)
(Over) / under provision in prior years		115	(754)
Total income tax expense		579	7,200
Deferred income tax (credit) / expense included in income tax expense comprises:			
Decrease / (increase) in deferred tax assets	16	(527)	(106)
Increase / (decrease) in deferred tax liabilities	22	(38)	(283)
Total deferred tax		(565)	(389)

(b) Numerical reconciliation of income tax expense

	2021 \$'000	2020 \$'000
Total operating (loss) / profit before tax	(4,462)	13,262
Prima facie income tax (benefit) / expense at 30%	(1,339)	3,979
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Impairment of investments in joint ventures	1,253	-
Release of contingent consideration for the MyKart joint venture	(549)	-
Impairment of intangible assets	-	2,197
Tax rate differences in overseas entities	(19)	58
Share-based payments expense	368	201
(Over) / under provision in prior periods	115	(754)
Acquisition costs	263	-
Share of loss from investments in joint ventures	225	1,168
Other	262	351
Income tax expense	579	7,200

(c) Amounts recognised directly in equity

	Note	2021 \$'000	2020 \$'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	16	(397)	(12)

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

	Note	2021 \$'000	2020 \$'000
Cash flow hedges	16,22	120	349

7. Key management personnel

	2021	2020
	\$	\$
Key management personnel compensation		
Short-term employee benefits	2,331,227	2,630,595
Post-employment benefits	120,859	120,445
Long-term benefits	22,106	23,401
Share-based payments ¹	1,085,370	337,949
Total key management personnel compensation	3,559,562	3,112,390

¹ Include \$756,924 non-cash expense for unvested performance rights retained upon the resignation of the former Managing Director, as disclosed in the "Final Director's Interest Notice" provided to the ASX on 14 December 2020, in compliance with AASB 2 *Share-based Payment*.

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:

- ▶ The Group's owns 10,000,000 shares in Aware Environmental Limited (AEL), which represents 10.7% of the capital of AEL at 30 June 2021. Subsequent to 30 June 2021 AEL undertook a series of restructuring transactions which resulted in the Group's interest in the capital of AEL reducing to approximately 7.4%.
- ▶ Mr. Geoffrey Pearce is the Chairman and a significant shareholder of AEL.
- ▶ In FY21 the Group made trade purchases of \$9,122,000 with AEL (2020: \$5,896,000).
- ▶ 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

	2021	2020
	\$'000	\$'000
Cash on hand	6	7
Cash at bank and on deposit (at call)	7,348	7,142
Total cash and cash equivalents	7,354	7,149

9. Trade and other receivables

	2021 \$'000	2020 \$'000
Trade receivables	33,196	43,013
Provision for impairment	(8)	(99)
Trade receivables, net of impairment	33,188	42,914
Other receivables and prepayments	4,437	3,781
Total trade and other receivables	37,625	46,695

	2021 \$'000	2020 \$'000
Movements in the provision for impairment of trade receivables		
Balance at 1 July	(99)	(115)
Reversal of provisions for impairment	74	16
Net receivables written off as uncollectible	17	-
Foreign exchange	-	-
Total provision for impairment	(8)	(99)

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.

	2021 \$'000	2020 \$'000
Neither past due nor impaired	24,638	31,895
Past due, but not impaired:		
▶ Less than 30 days	7,347	9,781
▶ 30 to 59 days	300	769
▶ 60 to 89 days	374	247
▶ 90 to 119 days	429	187
▶ 120 days or more	108	134
Gross carrying amount	33,196	43,013
Provision for impairment	(8)	(99)
Net carrying amount	33,188	42,914

Credit risk concentration

Three (2020: three) external customers represent \$21,053,927 (2020: \$27,537,966), which individually amount to 10% or more of the Group's trade receivables. These trade receivables are in relation to the Australian business.

10. Inventories

	2021 \$'000	2020 \$'000
Raw materials	5,575	9,013
Finished goods	50,693	41,821
Total inventories	56,268	50,834
Provision for inventory obsolescence	(8,168)	(3,748)
Total inventories, net of obsolescence provision	48,100	47,086

The increase in the carrying value of the inventory provision is mainly due to incremental excess stock for Dr. LeWinn's, driven by the latest sales forecast with Access Brands Management, the company's key China facing customer.

The inventory provision expense for 2021 is \$9.0 million (2020: \$1.3 million) and is captured in the materials and consumables expenses of the consolidated statement of comprehensive income. The increase in inventory provision expense is mainly due to the \$6.7 million write down of hand sanitisers, disclosed in Note 3 *Significant Items*, and incremental provision for Dr. LeWinn's excess stock.

11. Derivative financial instruments

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

	2021 \$'000	2020 \$'000
Current derivative financial instrument assets		
Forward foreign exchange contracts – cash flow hedges	16	-
Total current derivative financial instrument assets	16	-
Current derivative financial instrument liabilities		
Interest rate swaps – cash flow hedges	22	20
Forward foreign exchange contracts – cash flow hedges	261	271
Foreign currency options – cash flow hedges	709	279
Total current derivative financial instrument liabilities	992	570
Non-current liabilities		
Interest rate swaps – cash flow hedges	20	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.

11. Derivative financial instruments (continued)**Derivative financial instruments used by the Group (continued)***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 2021 to June 2022.

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 variable 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 other comprehensive income

	2021	2020
	\$'000	\$'000
Unlisted equity securities in Aware Environmental Limited	-	6,000

The adverse impact of the current COVID-19 related downturn in demand from Chinese consumers on our supplier Aware Environmental Limited's (AEL) customer base has resulted in a deterioration in AEL's financial outlook in the medium term. Consequently, following a recapitalisation by AEL to mitigate liquidity concerns, McPherson's has fully impaired its \$6.0 million investment in AEL at 30 June 2021.

Please refer to Note 2 (e) for details on the classification, process, measurement and recognition of this Financial assets at fair value through other comprehensive income.

13. Property, plant and equipment

	2021	2020
	\$'000	\$'000
<i>Leasehold improvements</i>		
At cost	335	339
Accumulated depreciation	(321)	(321)
Total leasehold improvements	14	18
<i>Plant and equipment</i>		
At cost	38,849	37,041
Accumulated depreciation	(32,424)	(30,800)
Total plant and equipment	6,425	6,241
Total property, plant and equipment	6,439	6,259

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

	Note	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Carrying amount at 1 July 2019		23	5,907	5,930
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
Carrying amount at 30 June 2020		18	6,241	6,259
Additions		-	1,885	1,885
Acquisition of business	18	-	75	75
Disposals		-	-	-
Transfer from other intangibles		-	-	-
Depreciation expense		(4)	(1,839)	(1,843)
Foreign currency exchange differences		-	63	63
Carrying amount at 30 June 2021		14	6,425	6,439

(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.

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

	2021 \$'000	1 July 2020 \$'000
Buildings	2,332	3,651
Equipment and Vehicles	1,124	1,383
Total right-of-use assets	3,456	5,034

Additions to right-of-use assets in 2021 were \$1,251,501 (2020: \$1,004,244).

(b) Amounts recognised in the statement of comprehensive income

	2021 \$'000	2020 \$'000
Depreciation charge of right-of-use assets		
Buildings	(1,970)	(1,928)
Equipment and Vehicles	(645)	(709)
Total depreciation charge of right-of-use assets	(2,615)	(2,637)
Expenses relating to short-term and low value leases (included in Rental Expense)	(348)	(353)
Interest expense (included in Borrowing Costs)	(284)	(503)
Cash outflow for leases including lease interests	(4,521)	(4,275)

15. Intangible assets

	Goodwill \$'000	Brand names \$'000	Customer Relationships \$'000	Other Intangibles \$'000	Total \$'000
At 30 June 2021					
Cost	33,552	53,713	2,700	8,200	98,165
Accumulated amortisation and impairment	-	-	(197)	(7,428)	(7,625)
Net book amount	33,552	53,713	2,503	772	90,540
At 30 June 2020					
Cost	15,757	48,310	-	7,662	71,729
Accumulated amortisation and impairment	-	-	-	(7,016)	(7,016)
Net book amount	15,757	48,310	-	646	64,713

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	Customer Relationships \$'000	Other Intangibles \$'000	Total \$'000
Carrying amount at 1 July 2019	15,757	56,827	-	1,389	73,973
Additions	-	-	-	71	71
Impairment charge	-	(8,517)	-	-	(8,517)
Amortisation charge	-	-	-	(479)	(479)
Transfer to property, plant and equipment	-	-	-	(335)	(335)
Foreign currency exchange differences	-	-	-	-	-
Carrying amount at 30 June 2020	15,757	48,310	-	646	64,713
Additions	-	103	-	538	641
Acquisition of business (note 18)	17,887	5,300	2,700	-	25,887
Impairment charge	-	-	-	-	-
Amortisation charge	-	-	(197)	(426)	(623)
Transfer to property, plant and equipment	-	-	-	-	-
Foreign currency exchange differences	(78)	-	-	-	(78)
Carrying amount at 30 June 2021	33,566	53,713	2,503	758	90,540

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.

Acquired customer relationships are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line basis over their estimated useful lives of 8 years.

15. Intangible assets (continued)*Impairment Testing**Goodwill*

Goodwill is allocated to the following cash generating units:

	2021	2020
	\$'000	\$'000
Australia	33,552	15,757

Management is satisfied that the Global Therapeutics business forms part of the Australian cash generating unit on the basis that:

- ▶ The decision making and monitoring of the operations of the Global Therapeutics business are performed centrally by the McPherson's Senior Leadership Team; and
- ▶ The Group's core assets will be operated together to generate the revenue of the acquired Global Therapeutics business.

The recoverable amount of a cash generating unit (CGU) is determined based on a value-in-use calculation. The value-in-use calculation includes cash flow projections based on the Board approved 2022 budget covering a one year period. Cash flows beyond the year one period are extrapolated using estimated 2.0% growth rates (2020: 2.0%), which are significantly lower than the growth rates arising from the execution of the Group's five-year transformation plan described in the McPherson's Operational Review. In performing the value-in-use calculations for the CGU, the Group has applied a post-tax discount rate to discount the forecast attributable post-tax cash flows.

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

CGU	30 June 2021				30 June 2020			
	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 2022 budget. The 2022 budget reflects the Board's expectation of cash flows for the Australian CGU driven by profit optimisation initiatives arising from the McPherson's Operational Review. At 30 June 2021, 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 \$3,364,441 (June 2020: \$134,431,322).

Impairment charge

No goodwill impairment charge was recognised in 2021 (2020: nil).

Impact of possible changes in key assumptions

If the year one projected EBIT were 5.0% below the current estimates used in the value-in-use calculation, an impairment charge of \$7,400,000 would arise.

If the annual growth rates of years 2 to 5 in the value-in-use calculation were to be 1.0% lower than management's estimates, an impairment charge of \$800,000 would arise.

If the terminal year growth rate used in the value-in-use calculation were to be 1.0% lower than management's estimates, an impairment charge of \$7,300,000 would arise.

If the post tax discount rate used in the value-in-use calculation was to be 0.5% higher than management's estimates, an impairment charge of \$4,000,000 would arise.

An identical sensitivity analysis was undertaken by management using the growth rates of the Group's five-year transformation plan described in the McPherson's Operational Review. Management is satisfied that any possible change in the key assumptions, based on the Group's five-year plan, would not result in any impairment of goodwill.

15. Intangible assets (continued)**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 carrying values of the purchased brand names are:

	2021 \$'000	2020 \$'000
Multix	20,166	20,166
Manicare	9,366	9,366
Dr. LeWinn's	5,719	5,616
Maseur	5,061	5,061
Fusion Health	4,200	-
Swisspers	4,156	4,156
Oriental Botanicals	1,100	-
Other brand names	3,945	3,945
Total brand names	53,713	48,310

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

	2021	2020
Estimated annual growth rates	1.0% - 7.8%	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 2021, the total carrying value of brand names was \$53,713,000 (2020: \$48,311,000). The value-in-use calculations for these brand names exceeded their carrying values.

Impairment charge

No brand name impairment charge was recognised in 2021.

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

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.

16. Deferred tax assets

	Note	2021 \$'000	2020 \$'000
The balance comprises temporary differences attributable to:			
Employee benefits		2,025	1,665
Depreciation		810	954
Net of right-of-use assets and lease liabilities		506	968
		3,341	3,587
<i>Other</i>			
Takeover advisory fees		516	-
Unutilised tax losses		189	67
Transaction costs associated with shares issuance		317	18
Cashflow hedges		304	183
Other		527	354
Subtotal other temporary differences		1,853	622
Total temporary differences		5,194	4,209
Set-off of deferred tax liabilities pursuant to set-off provisions	22	(4,919)	(4,020)
Net deferred tax assets		275	189

Movements

	Note	Leases* \$'000	Employee Benefits \$'000	Depreciation \$'000	Other \$'000	Total \$'000
Opening balance at 1 July 2019		-	1,416	657	455	2,528
AASB16 adjustment at 1 July 2019		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		-	-	-	-	-
Closing balance at 30 June 2020		968	1,665	954	622	4,209
Charged to profit or loss	6	(462)	237	99	653	527
Acquisition on business combination		-	123	-	-	123
Charged to equity		-	-	-	397	397
Charged to other comprehensive income		-	-	-	120	120
Under/(over) provision in prior years		-	-	(243)	57	(186)
Foreign currency exchange differences		-	-	-	4	4
Closing balance at 30 June 2021		506	2,025	810	1,853	5,194

*Right-of-use assets net of lease liabilities

16. Deferred tax assets (continued)

	2021	2020
	\$'000	\$'000
Deferred tax assets to be recovered within 12 months	4,093	3,012
Deferred tax assets to be recovered after more than 12 months	1,101	1,197
Total deferred tax assets	5,194	4,209

17. Investment in joint ventures**(a) Interest in joint ventures**

The following table summarises the financial information of the equity accounted investees as at 30 June 2021.

Entity	Country	% Interest	Measurement method	Carrying amount	Share of loss
				\$'000	\$'000
Kotia Limited	New Zealand	51	Equity method	-	114
Sugarbaby & Co Pty Ltd	Australia	51	Equity method	-	432
My Kart Pty Ltd	Australia	51	Equity method	-	203
Dr. LeWinn's China Limited	Hong Kong	49	Equity method	111	-
				111	749

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

The 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 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

	2021	2020
	\$'000	\$'000
Opening balance	1,909	716
Acquisition of investment in joint ventures	-	2,363
Share of loss from joint ventures	(749)	(3,894)
Share of loss from joint ventures recognised against loan receivable	546	2,724
Impairment of investments in joint ventures	(1,595)	-
Carrying amount of equity accounted investments	111	1,909

As at 30 June 2021, the Group recognised an impairment charge of \$1,595,000 before tax (2020: \$204,000) to fully impair the investments in Sugarbaby & Co Pty Ltd and My Kart Pty Ltd, and released the earn out liability of \$1,829,000 before tax in relation to the My Kart joint venture (2020: nil), as market traction has been difficult to realise in the current retail environment.

Share of joint ventures' statement of financial position

	2021	2020
	\$'000	\$'000
Current assets	885	550
Non-current assets	72	61
Total assets	957	611
Current liabilities	(5,147)	(3,971)
Total liabilities	(5,147)	(3,971)
Net asset / (liability)	(4,190)	(3,360)

17. Investment in joint ventures (continued)**(b) Loan receivables from joint ventures**

The following table summarises financial information in relation to the Group's loans to the joint ventures as at 30 June 2021:

Name of entity	Loans receivables	Gross carrying value \$'000	Accumulated impairment & share of loss \$'000	Total carrying amount \$'000	Interest rate	Term
Kotia Limited	Shareholder loan	2,413	(2,413)	-	-	These loans are not expected to be repaid within 12 months
Sugarbaby & Co Pty Ltd	Shareholder loan	1,929	(1,929)	-	5%	
My Kart Pty Ltd	Shareholder loan	1,139	(1,139)	-	6%	
	Working capital loan	123	(123)	-	-	
Total		5,604	(5,604)	-		

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

As at 30 June 2021, the Group recognised an impairment charge of \$2,571,000 before tax (2020: \$204,000) to fully write down the shareholder loans from Kotia Limited, Sugarbaby & Co Pty Ltd and My Kart Pty Ltd joint ventures as the Group did not consider the shareholder loans were recoverable.

18. Business combination**Summary of acquisition**

On 30 November 2020, McPherson's Consumers Products Pty Ltd acquired the Global Therapeutics business, a leading provider of branded Oriental and Western herbal and complementary medicine formulations, for a total purchase consideration of \$27,541,772. This acquisition embeds a strong Vitamins and Dietary Supplements business with recognised brands, a go-to-market capability and a strong product innovation pipeline into McPherson's newly established Health Division.

Details of the purchase consideration, net identifiable assets acquired and goodwill are as follows:

	\$000's
Purchase consideration	
Cash paid	29,170
Less: completion working capital adjustment	(1,628)
Total purchase consideration	27,542

The acquired identifiable assets and assumed liabilities recognised as a result of the acquisition are as follows:

	Fair Value \$000's
Trade and other receivables	2,077
Inventories	2,230
Brand names	5,300
Customer relationships	2,700
Right-of-use assets	148
Equipment	75
Deferred tax assets	123
Provision for employee entitlements	(410)
Make good provision	(40)
Lease liabilities	(148)
Deferred tax liabilities	(2,400)
Net identifiable assets acquired	9,655
Goodwill	17,887
Net assets acquired	27,542

18. Business combination (continued)**Summary of acquisition (continued)**

The goodwill recognised is attributable to both the future growth prospects of the acquisition and the synergies expected to be achieved from integrating this business into the Group's existing operations. The goodwill will not be deductible for tax purposes.

(i) Acquired trade receivables

The fair value of acquired trade receivables is \$1,905,000. The gross contractual amount for trade receivables due is \$1,905,000, with no provision for doubtful debts recognised on acquisition.

(ii) Revenue and profit contribution

The acquired business contributed revenues of \$9,483,626 and profit before tax of \$1,394,216 to the Group for the period from 1 December 2020 to 30 June 2021.

(iii) Acquisition-related costs

Acquisition-related costs of \$877,000, including stamp duty of \$455,000, were recognised in the statement of profit or loss and in operating cash flows in the statement of cash flows.

19. Trade and other payables

	2021 \$'000	2020 \$'000
Trade payables	18,841	30,043
Customer contract liabilities	14,969	13,924
Other payables	8,233	5,891
Total trade and other payables	42,043	49,858

20. Borrowings

	2021 \$'000	2020 \$'000
Bank loan – secured	16,000	16,667
Debt issue costs	(227)	(290)
Total non-current borrowings	15,773	16,377
Total borrowings	15,773	16,377

	2021 \$'000	2020 \$'000
Interest income		
Interest income	12	302
Borrowing costs		
Borrowing costs applicable to debt facilities	(1,086)	(1,391)
Amortisation of refinancing costs	(113)	(64)
Total borrowing costs	(1,199)	(1,455)
Net borrowing costs	(1,187)	(1,153)

20. Borrowings (continued)

The Group's three-year facility, denominated in Australian dollars, has a facility limit of \$47.5 million (2020: \$47.5 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 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 2021, the Group was compliant with its debt covenants.

In addition to the three-year \$47.5 million facility, the Group holds a \$5 million overdraft facility (2020: \$5 million).

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

The following assets are pledged as security:

	2021	2020
	\$'000	\$'000
Property, plant and equipment	6,388	6,167
Intangible assets	89,148	63,229
Total non-current assets pledged as security	95,536	69,396
Cash	6,275	5,716
Receivables	36,293	45,153
Inventories	47,763	46,127
Total current assets pledged as security	90,331	96,996
Total assets pledged as security	185,867	166,392

21. Provisions

	2021	2020
	\$'000	\$'000
Provisions - current		
Employee entitlements	6,657	5,538
Employee incentives	296	2,372
Total current provisions	6,953	7,910
Provisions - non-current		
Employee entitlements	881	732

(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 6% 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.

Movement in provisions

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

	Employee Incentives \$'000
Carrying amount at 1 July 2020	2,372
Additional provisions charged to profit or loss	782
Unused amounts reversed to profit or loss	(40)
Payments	(2,817)
Foreign currency exchange differences	(1)
Carrying amount at 30 June 2021	296

22. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Note	2021 \$'000	2020 \$'000
Brand names		12,284	10,694
Customer relationships		810	-
Other		1	44
Total temporary differences		13,095	10,738
Set-off of deferred tax asset pursuant to set-off provisions	16	(4,919)	(4,020)
Net deferred tax liabilities		8,176	6,718
Deferred tax liabilities to be settled within 12 months		1	38
Deferred tax liabilities to be settled after more than 12 months		13,094	10,700
Total temporary differences		13,095	10,738

Movements

	Note	Brand names \$'000	Customer relationships \$'000	Other \$'000	Total \$'000
Consolidated					
Closing balance at 30 June 2019		11,052	-	203	11,255
Debited/(Credited) to profit or loss	6	(358)	-	75	(283)
Charged to other comprehensive income	6	-	-	(166)	(166)
Under provision in prior years		-	-	(71)	(71)
Foreign exchange		-	-	3	3
Closing balance at 30 June 2020		10,694	-	44	10,738
Debited/(Credited) to profit or loss	6	-	-	(38)	(38)
Acquisition of business		1,590	810	-	2,400
Charged to other comprehensive income	6	-	-	-	-
Under provision in prior years		-	-	-	-
Foreign exchange		-	-	(5)	(5)
Closing balance at 30 June 2021		12,284	810	1	13,095

23. Contributed equity

	2021 \$'000	2020 \$'000
Issued and paid up capital		
128,403,460 fully paid ordinary shares (June 2020: 107,264,580)	206,363	159,444

Movements in ordinary share capital

Date	Details	Number of Shares	Price \$	\$'000
1 July 2019	Opening Balance	106,329,245		157,751
	Employee shares scheme	122,517	1.74	213
	Dividend Reinvestment Plan for the 30 June 2019 final dividend	391,541	2.19	857
	Dividend Reinvestment Plan for the 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
30 June 2020	Closing Balance	107,264,580		159,444
	Employee shares scheme	88,288	2.80	247
	Dividend Reinvestment Plan for the 30 June 2020 final dividend	594,715	2.87	1,706
	Institutional Placement	16,090,606	2.27	36,526
	Share Purchase Plan	4,365,271	2.15	9,385
	Transaction costs associated with share issuances			(1,349)
	Tax effect of share issue transaction costs recognised directly in equity			404
30 June 2021	Closing Balance	128,403,460		206,363

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 bank debt, excluding lease liabilities divided by total capital. Net bank debt is calculated as total borrowings less cash assets. Total capital is calculated as net debt plus total equity.

	Note	2021 \$'000	2020 \$'000
Total borrowings	20	15,773	16,377
Less: Cash assets	8	(7,354)	(7,149)
Net bank debt, excluding lease liabilities		8,419	9,228
Total equity		116,870	90,229
Total capital		125,289	99,457
Gearing ratio		6.8%	9.3%

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

	Note	2021 \$'000	2020 \$'000
Hedging reserve – cash flow hedges		(582)	(321)
Share-based payments reserve		3,880	2,625
Foreign currency translation reserve		1,899	2,038
Financial assets at FVOCI reserve		(6,000)	-
Total reserves		(803)	4,342
Cash flow hedge reserve			
Balance 1 July		(321)	508
Revaluation – gross		(997)	(615)
Deferred tax	16, 22	304	183
Transfer to cost of sales – gross		615	(563)
Deferred tax	16, 22	(183)	166
Total cash flow hedge reserve		(582)	(321)
Share-based payments reserve			
Balance at 1 July		2,625	2,180
Share-based payment expenses	25	1,502	664
Employee share scheme issued during the year		(247)	(219)
Total share-based payments reserve		3,880	2,625
Foreign currency translation reserve			
Balance 1 July		2,038	1,986
Currency translation differences arising during the year		(139)	52
Total foreign currency translation reserve		1,899	2,038
Financial assets at FVOCI reserve			
Balance 1 July		-	-
Revaluation – gross		(6,000)	-
Deferred tax		-	-
Total financial assets at FVOCI reserve		(6,000)	-

(b) Accumulated losses

	Note	2021 \$'000	2020 \$'000
Balance 1 July		(73,557)	(65,897)
Effects from changes in accounting policy ¹		-	(3,061)
Profit/(Loss) after tax		(5,041)	6,062
Dividends provided for or paid		(12,008)	(10,661)
Total accumulated losses		(90,606)	(73,557)

¹ The \$3,061,000 effects from changes in accounting policy in 2020 relate to the adoption of AASB 16 *Leases*.

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.

Financial asset at fair value through other comprehensive income reserve (FVOCI reserve)

The group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income. These changes are accumulated within the FVOCI reserve within equity. The group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

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 People and Culture Committee and no individual has a contractual right to receive any guaranteed benefits.

There is no LTI entitlement for the Managing Director in FY21. The maximum LTI opportunity for the former Managing Director is \$1 million per annum and for other senior executives in 2021 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 to the Managing Director (Grant Peck) for the years from 2022 to 2025 will be sought, under ASX Listing Rule 10.14, at the Company's Annual General Meeting in November 2021.

Approval for the issue of Performance Rights granted to the former Managing Director (Laurie McAllister) 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	Grant Year	Vesting Hurdles	Vesting Period
High Level Performance Rights (HLP) and Performance Rights	HLP Former Managing 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
	Performance Rights Chief Financial Officer (and Company Secretary) and Commercial Director ANZ			
HLP	Former 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
		2021	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 Commercial Director ANZ	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
		2021	<u>First 50% of Rights</u> Zero Rights vesting at +3.0% Underlying EPS CAGR (or less), to 100% of Rights vesting at +8.0% (or higher) Underlying EPS CAGR	3 years
			<u>Remaining 50% of Rights</u> 25% of Rights vesting at +8.0% TSR CAGR (at least), to 100% of Rights vesting at +13.0% (or higher) TSR CAGR	3 years
Exceptional Level Performance Rights (ELP)	Former 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
		2021	25% of Rights vesting at +10.0% 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:

	2021		2020	
	Average fair value at grant date	Number of rights	Average fair value at grant date	Number of rights
As at 1 July	\$1.43	3,739,000	\$1.09	3,424,000
Granted during the year	\$1.89	628,000	\$1.88	877,000
Redeemed during the year		-		(50,000)
Lapsed during the year		(529,000)		(512,000)
As at 30 June	\$1.50	3,838,000	\$1.43	3,739,000
Vested and exercisable		803,000		213,000

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

Grant date	Vesting date	Number of rights	
		30 June 2021	30 June 2020
21 November 2016	25 September 2019	213,000	213,000
21 November 2016	25 September 2020	590,000	590,000
21 September 2017	22 September 2020	-	294,000
21 September 2017	22 September 2020	-	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	422,000
18 November 2019	26 September 2022	182,000	182,000
18 November 2019	25 September 2023	273,000	273,000
25 September 2020	26 September 2023	437,000	-
25 September 2020	26 September 2024	191,000	-
Total		3,838,000	3,739,000

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

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	<p>Financial year of grant before 2019 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>Financial year of grant 2019 onwards 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 FY20 vested on 30 July 2021 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 Securities Exchange during the week ending on 11 August 2021.

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 FY22 on the same basis as outlined above.

	12 August 2021	12 August 2020
Number of shares issued under the Employee Share Scheme	244,640*	88,288

* To be issued subsequent to the date of this report

The number of shares to be issued to participants of the FY21 Employee Share Scheme was calculated based on the \$1,000 offer amount divided by the weighted average price of \$1.136 (2020: \$2.801) at which the company's shares were traded on the Australian Securities Exchange during the week ending on 11 August 2021. The shares are to be issued to employees shortly after that date.

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:

	2021 \$'000	2020 \$'000
Performance Rights issued under the Employee Performance Rights plan ¹	1,228	428
Shares estimated to be issued under the Employee Share Scheme	274	230
Total expenses	1,502	658

¹ Include \$756,924 non-cash expense for unvested performance rights retained upon the resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 14 December 2020, in compliance with AASB 2 Share-based Payment.

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

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

	2021 \$'000	2020 \$'000
Due not later than one year	808	443

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.

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:

	2021 \$	2020 \$
(a) PricewaterhouseCoopers Australia		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	375,247	273,800
Total remuneration for audit and other assurance services	375,247	273,800
<i>(ii) Other services</i>		
Working capital review	38,256	-
Inventory observation for Global Therapeutics acquisition	15,512	-
Consumables review	-	50,000
Total remuneration for other services	53,768	50,000
Total remuneration of PricewaterhouseCoopers Australia	429,015	323,800
(b) Network firms of PricewaterhouseCoopers Australia		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	-	-
Total remuneration for audit and other assurance services	-	-
Total remuneration of PricewaterhouseCoopers Australia	429,015	323,800
(c) Non PricewaterhouseCoopers audit firms		
<i>(i) Audit and other assurance services</i>		
Audit and review of financial statements	28,502	31,569
Total remuneration of non-PricewaterhouseCoopers audit firms	28,502	31,569
Total remuneration of auditors	457,517	355,369

29. Earnings per share

	2021 Cents	2020 Cents
Basic (loss) / earnings per share	(4.2)	5.7
Diluted (loss) / earnings per share	(4.1)	5.7
Basic earnings per share excluding significant items	5.4	15.3
Diluted earnings per share excluding significant items	5.3	15.2

Reconciliation of earnings used in calculating earnings per share

	2021 \$'000	2020 \$'000
<i>Basic and diluted earnings per share</i>		
Profit after income tax excluding significant items	6,515	16,336
Significant items after income tax (Note 3)	(11,556)	(10,274)
(Loss) / profit after income tax	(5,041)	6,062

Weighted average number of shares

	2021 Number	2020 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	121,164,475	106,849,062
<i>Adjustments for calculation of diluted earnings per share</i>		
Commencement rights vested for the former Managing Director	213,000	213,000
Performance rights vested for the former Managing Director	590,000	-
Shares issued under the employee share scheme	241,699	76,730
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	122,209,174	107,138,792

*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 and Performance Rights granted and vested to the former 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 2021 and 30 June 2020. 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 2021 and 30 June 2020.

30. Particulars in relation to controlled entities

Name of entity	Country of Incorporation
McPherson's Limited	Australia
McPherson's Consumer Products Pty Ltd ¹	Australia
McPherson's Limited Employee Security Plans Trust ²	Australia
McPherson's Consumer Products (NZ) Limited	New Zealand
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

¹ This subsidiary has 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.

² The Group does not hold any ownership interests in this entity. However, based on terms of agreements under which this entity is established, the Group has the current ability to direct the entity's activities that significantly affects the entity's returns.

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.

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

Transactions with 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

Balances and transactions between McPherson's Limited and its controlled entities have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Transactions with joint ventures

Transactions with joint ventures	2021 \$'000	2020 \$'000
Trade purchases	(719)	(96)
Trade payables	(894)	(510)
Loan to joint ventures	1,587	3,608
Expense recharges and management fees	936	1,962

The carrying amount of investments and loans with the joint ventures is disclosed in Note 17.

Transactions with Aware Environmental Limited (AEL)

The Group owns 10,000,000 shares in AEL, which represents 10.7% of the capital of AEL at 30 June 2021.

Subsequent to 30 June 2021 AEL undertook a series of restructuring transactions which resulted in the Group's interest in the capital of AEL reducing to approximately 7.4%.

Mr. Geoffrey Pearce is the Chairman and a significant shareholder of AEL.

Transactions with AEL	2021 \$'000	2020 \$'000
Trade purchases	(9,122)	(5,896)
Trade payables	(168)	(353)

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 2021 of the parties to the Deed of Cross Guarantee.

	2021	2020
	\$'000	\$'000
<i>Income statement</i>		
Revenue	185,946	207,391
Other income	11	309
Expenses	(188,008)	(186,465)
Finance costs	(1,143)	(1,404)
(Loss) / profit before income tax	(3,194)	19,831
Income tax expense	(829)	(7,216)
(Loss) / profit for the year	(4,023)	12,615

(b) Movements in consolidated accumulated losses of the parties to the Deed of Cross Guarantee

	2021	2020
	\$'000	\$'000
<i>Summary of movements in consolidated accumulated losses</i>		
Accumulated losses at beginning of the financial year	(21,753)	(20,672)
(Loss) / profit after income tax for the year	(4,023)	12,615
Impact of AASB 16 Leases	-	(3,035)
Dividends provided for or paid	(12,008)	(10,661)
Accumulated losses at the end of the financial year	(37,784)	(21,753)

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

	2021	2020
	\$'000	\$'000
Current assets		
Cash and cash equivalents	5,856	4,876
Trade and other receivables	34,705	43,747
Inventories	45,073	43,873
Current tax asset	1,004	-
Total current assets	86,638	92,496
Non-current assets		
Other financial assets	-	1,457
Property, plant and equipment	6,167	5,926
Right-to-use asset	2,407	3,978
Intangible assets	90,603	64,698
Financial assets at fair value through OCI	-	6,000
Investments	71,604	73,402
Total non-current assets	170,781	155,461
Total assets	257,419	247,957
Current liabilities		
Trade and other payables	55,374	63,078
Lease liabilities	3,528	3,678
Derivative financial instruments	992	566
Provisions	6,115	7,160
Current tax liabilities	-	4,310
Total current liabilities	66,009	78,792
Non-current liabilities		
Borrowings	15,773	16,377
Lease liabilities	566	3,524
Contingent liabilities	-	1,776
Derivative financial instruments	20	45
Provisions	881	726
Deferred tax liabilities	8,309	6,718
Total non-current liabilities	25,549	29,166
Total liabilities	91,558	107,958
Net assets	165,861	139,999
Equity		
Contributed equity	206,363	159,444
Reserves	(2,718)	2,308
Accumulated losses	(37,785)	(21,753)
Total equity	165,861	139,999

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

	2021	2020
	\$'000	\$'000
(Loss) / Profit after income tax	(5,041)	6,062
Impairment of brand names	-	8,517
Impairment of joint venture investment, shareholder loan and receivables	5,001	205
Release of contingent consideration for the My Kart joint venture	(1,829)	-
Share of loss in joint ventures	749	3,894
Depreciation of property, plant and equipment	1,843	1,781
Amortisation of other intangibles	623	479
Depreciation of right of use asset	2,615	2,637
Share-based payments expense	1,502	671
<i>Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets:</i>		
(Decrease) / Increase in payables	(8,267)	17,927
(Decrease) in other provisions	-	(100)
(Decrease) / Increase in employee entitlements	(1,202)	1,927
(Decrease) / Increase in net tax liabilities	(6,536)	1,206
Decrease / (Increase) in receivables	10,935	(15,521)
Decrease / (Increase) in inventories	2,301	(10,353)
Net cash inflows from operating activities	2,694	19,332

(b) Non-cash investing and financing activities

	Note	2021	2020
		\$'000	\$'000
Shares issued under Dividend Reinvestment Plan	23	1,705	1,503

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

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	7,354	7,149
Current lease liability	(4,360)	(4,507)
Borrowings repayable after one year	(15,773)	(16,377)
Non-current lease liability	(796)	(3,785)
Net debt	(13,575)	(17,520)
Cash and cash equivalents	7,354	7,149
Gross debt at fixed interest rates (lease liabilities)	(5,156)	(8,292)
Gross debt at variable interest rates	(15,773)	(16,377)
Net debt	(13,575)	(17,520)

	Liabilities from financing activities			
	Cash and cash equivalents	Borrowings	Leases	Total
	\$'000	\$'000	\$'000	\$'000
Net debt as at 1 July 2020	7,149	(16,377)	(8,292)	(17,520)
Cash flows	310	604	4,521	5,435
Acquisition - leases	-	-	(1,319)	(1,319)
Foreign exchange adjustment	(105)	-	47	(58)
Other non-cash movements	-	-	(112)	(112)
Net debt as at 30 June 2021	7,354	(15,773)	(5,155)	(13,574)

34. Events occurring after balance date

The recent COVID-19 restrictions imposed in Australia have not significantly impacted McPherson's, with key suppliers remaining unaffected and sales orders from Australian based retailers remaining relatively stable.

On 21 July 2021, Graham Cubbin stepped down from the role of Chairman and, following a transition period, will retire from the Board. He was succeeded as Chairman by current Independent Non-Executive Director and Deputy Chairman Mr. Ari Mervis.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2021 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:

	2021	2020
	\$'000	\$'000
Balance Sheet		
Current assets	3,655	496
Total assets	170,431	183,416
Current liabilities	64,298	108,695
Total liabilities	80,098	128,986
Shareholders' equity		
Issued capital	206,363	159,443
Cash flow hedge reserve	(597)	(316)
Share-based payments reserve	3,880	2,625
Financial assets at FVOCI reserve	(6,000)	-
2016 accumulated losses	(116,096)	(116,096)
Post 2016 retained earnings	2,783	8,774
Total shareholders' equity	90,333	54,430
Profit for the period	6,017	11,992
Total comprehensive income	(264)	11,176

(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.