

Providing care solutions to nurture

CONFIDENT HEALTHY SUSTAINABLE LIFESTYLES



McPHERSON'S
Est. 1860

Who We Are

McPherson's purpose is to provide care solutions to nurture confident, healthy, and sustainable lifestyles.

Established in 1860 and listed on the ASX, McPherson's is a leading supplier of health, wellness, and beauty products in Australasia, 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, Glam, Lady Jayne, Swisspers, Sugarbaby, Multix, Fusion Health, Oriental Botanicals, Moosehead and Maseur. With a dedicated research and development team, McPherson's is a leader in innovation using state of the art formulations and ingredients to develop award winning products; McPherson's also manages a small number of brands for agency partners. 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.



DR. LEWINN'S®

[A'kin]®



manicare®



GLAM
by manicare®

swisspers®





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McPHERSON'S
VEGAN
COLLAGEN
HYALURONIC
ACID

McPHERSON'S
VEGAN
COLLAGEN
HYALURONIC
ACID

Financial Overview

TOTAL SALES REVENUE

\$210.3m

∨ 2% | On FY22: \$214.0m

OWNED BRAND SALES

+2%

UNDERLYING EBIT

\$9.1m

∨ 23% | On FY22: \$11.8m

GEARING

5.6%

Net Debt: \$6.5m

DIVIDEND

3.0cps

FY22: 5.0 CPS

FY23

Key Achievements



Double digit growth in Essential Beauty category comprising Manicare, Lady Jayne and Swisspers.



Strong growth in sales of Fusion, benefiting from the Strategic Alliance Agreement with the Chemist Warehouse Group.



Continued leadership in Sustainability and Innovation in the categories in which the Company operates.



Growth in retail distribution points due to the launch of Fusion and Chemist Warehouse brands.



Reset of China relationships and diversification of Dr. LeWinn's presence in that market.



Restructuring of Singapore operations with transition from a permanent office to a distribution model.



Three year term debt facility of \$47.5m established from March 2023.



Engagement of many staff in creating new Purpose and Values statements that have been rolled out across the Company.



*Double digit growth in
Essential Beauty category*

Message from the Company Chair



The company has a terrific portfolio of leading brands, a talented team of employees, and a robust customer and consumer base.

The results outlined in McPherson's 2023 Annual Report fell below the expectations of the Board and Management, and while there were a number of contributing macro and operational factors, changes and initiatives have been put in place to improve future performance.

Sales of \$210.3 million were 2% below the previous year's \$214.0 million. This decrease was largely due to an \$8.5 million reduction in sales of private label product as the Company de-emphasised participation in this lower margin segment. Sales of the Company's owned brand products increased by \$3.2m or 2% in FY23.

While the decrease in FY23 sales was not material, the EBIT impact was exacerbated by depreciation in the \$AU/\$US, elevated commodity and sea freight costs, increases in advertising and promotional expenses and increases in other operating expenses. These cost impacts collectively resulted in a \$2.7 million (23%) decline in underlying earnings before interest and tax (EBIT) to \$9.1 million.

In terms of category performance, double-digit revenue growth in the Essential Beauty category (Lady Jayne, Manicare and Swisspers) and strong performance in the domestic pharmacy channel was offset by an 11% decline in sales of Multix in the domestic grocery channel.

Domestic Skincare sales declined by 10%, primarily due to a 36% decline in A'kin sales impacted by range rationalisation and rundown of inventory prior to the brand's re-launch in FY24. Supply chain disruptions impacted sales of Dr. LeWinn's and A'kin products during the second half of the fiscal.



FUSION HEALTH
IRON ADVANCED

Revenue from Fusion products increased by 10% for the full year, with a strong performance, particularly in the pharmacy channel, benefiting from broader distribution through the strategic alliance with Chemist Warehouse.

International sales increased by \$1.4 million (18%) due to a \$0.8 million increase in sales in the Singapore market, and a \$0.7 million increase in sales of Dr. LeWinn's products into China.

The FY23 financial statements included material items totalling \$12.0 million before tax. The primary elements were firstly, an \$8.3 million non-cash impairment in the Multix brand, due to a reassessment of future revenue flows. Secondly, a \$3.4 million non-cash impairment in other brands and asset write down, the largest contributor being a \$2.9 million impairment in the Maseur brand as FY23 revenue was below expectations, giving rise to a reduced growth projection.

The Company recorded underlying cash conversion of 51% in FY23, with net debt excluding lease liabilities remaining low at \$6.5 million and the Company's gearing ratio (net bank debt excluding lease liabilities / total funds employed) of 6% at 30 June 2023.

Given the Company's strong balance sheet and franking credit balance, the Board has maintained a high dividend payout ratio of 100% of underlying profit after tax, declaring full year dividends of 3.0 cents per share fully franked. The Company's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

The Company has recently transitioned the Managing Director and CEO role to Brett Charlton who has significant turnaround experience, where he has led growth in other manufacturing and consumer-based organisations. Brett's track record in leading performance improvement is already evident in the process driven focus he has applied to the Company's Strategic Review over the first few months of his role. The Board is looking forward to working with Brett to deliver improved performance for all stakeholders.

During the year, Geoff Pearce retired as a non-executive director, and Phil Benett as company secretary, while Grant Peck resigned as MD and CEO. I would like to acknowledge their effort, input, and support, and thank them all for their contributions to McPherson's.

The company has a terrific portfolio of leading brands, a talented team of employees, and an enviable customer and consumer base. Coupled with the strong balance sheet and renewed leadership, the business is well poised to deliver into the future.

Your board appreciates your continuing support and looks forward to improving performance and delivering sustainable profitable growth.

Ari Mervis
Chair

REVENUE FROM FUSION
PRODUCTS INCREASED BY

10%

INTERNATIONAL SALES
INCREASED BY

\$1.4m

Caring for Our Environment



Our Goals

FY23 saw McPherson's continue implementing its Sustainability Strategy and the work required to achieve our four goals.

1

Aspiration to achieve Net Zero by 2035 across our scope 1, 2 and 3 emissions.

Sustainable Development Goals

Working with the NSW government's sustainability advantage programme, we established a baseline year (FY22) and capture our baseline scope 1 and 2 emissions – 1155 tCO₂e

- Scope 1 – 26% of those emissions come from our fleet of vehicles.
- Scope 2 – 74% of those emissions come from our offices and warehouse. Our Kingsgrove site is 77% of our scope 2 emissions.

Greenhouse gas (GHG) emissions

Scope 1

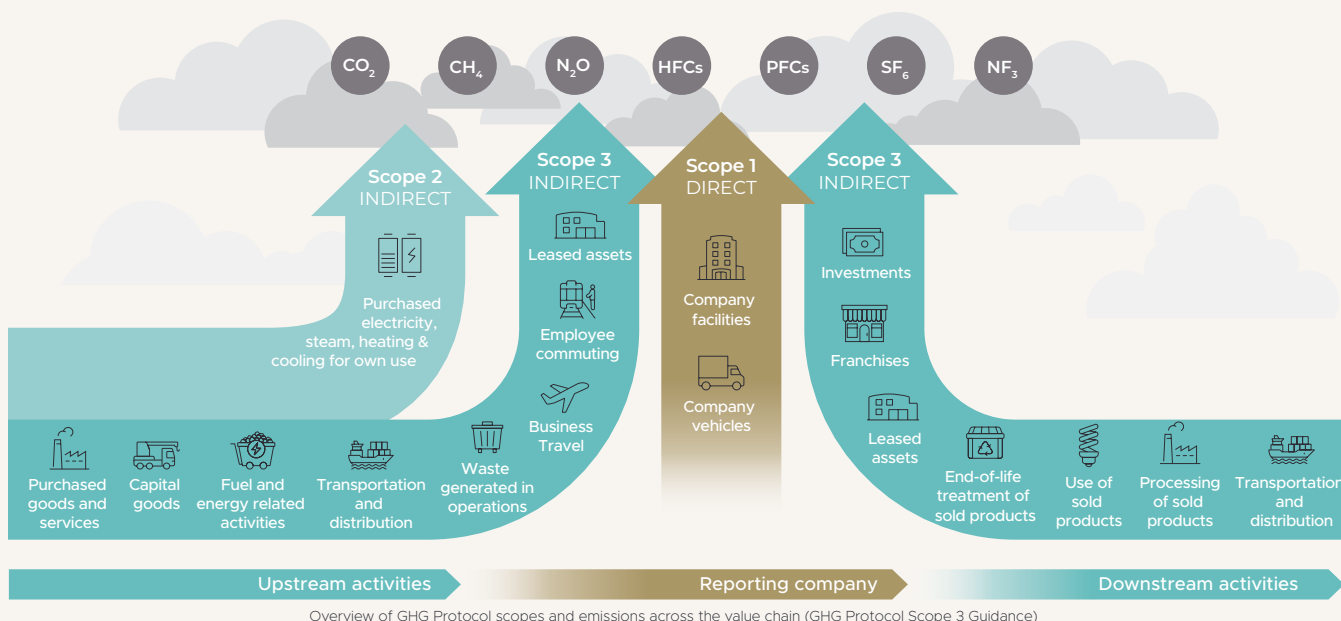
Direct emissions from stationary or mobile installations owned or controlled by McPherson's.

Scope 2

Indirect emissions associated with the production of imported electricity, heat or steam for McPherson's activities.

Scope 3

Other emissions indirectly produced by activities linked to McPherson's value chain.



Key Goals

Implement energy efficiency projects at the Kingsgrove offices and warehouse

Implement efforts to reduce emissions from our fleet

Embed the capture of scope 1 and 2 emissions into our BAU reporting cycle

Achievements Against Goals

Replaced lighting at Kingsgrove with a >60% reduction in emissions from that source

Rationalised our sales force to align with business needs with a co-benefit of reducing our fleet emissions

Embedded capture of scope 1 and 2 emissions within the company's reporting system

McPherson's is a proud member of the Complementary Medicines Association and an active participant on its sustainability committee. As part of the CMA's efforts to help members progress their net zero ambitions a collaborative effort between the NSW government's sustainability advantage programme, the CMA, Blackmore's, and McPherson's co-launched a net zero accelerator programme for CMA members at their annual conference. This programme kicked off in May 2023 and we look forward to seeing the changes to the broader sector that the participants achieve.





2

Aspiration to achieve the APCO Sustainable Packaging Goals by 2025 across our core brands.

Sustainable Development Goals



Our goals for FY23 build momentum towards achieving this goal:

Key Goals	Achievements Against Goals
Develop a database which captured our packaging data – E.g. material type, weight, % of recycled content, etc.	Leveraged an existing database to capture the required packaging data and align that to units sold
Gap analysis for each brand across the four areas of the sustainable packaging goals	Each of our core brands knows where their gaps are and has commenced projects to close those gaps
Create project teams for the more challenging product types	Project teams created for our two most challenging brands

Our most challenging areas to change packaging sit within our health business and our formulated beauty brands. The health business made outstanding progress and FY24 will see further improvement and steps begun to achieve the national Sustainable Packaging Goals, within the constraints of the regulatory body, the Therapeutic Goods Administration.

Across our two formulated beauty brands one is on track to achieve the packaging goals. Progress on the remaining brand is a focus for FY24.

3

Implement a Sustainable Supply Chain Policy and the associated guidance and assurance mechanisms by the end of 2022.

Sustainable Development Goals



The Company has transitioned from a policy approach to adoption of a [Supplier Code of Conduct](#) (the Code).

In the first round of engagement with our supply chain we focussed on our major suppliers (76 in total) returning a signed version of the Code. The codes were dispatched in December 2022 and January 2023 and all have been received back.

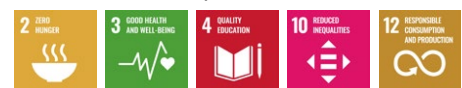
Our next steps are:

- Implement an assurance process against our Code.
- Update our new supplier processes to capture the Code prior to any working relations commencing.
- Agree on the requirements to trigger when a supplier is required to complete the Code.

4

Implement guidelines by the end of 2022 to ensure the way our core brands are represented in the marketplace reflect the diversity of those markets and promote a more inclusive society.

Sustainable Development Goals



In early 2023 our brand teams were taken through diversity and inclusion training. Following on from the training the teams engaged with some robust and at times challenging conversations on the subject. Topics covered ranged from different marketplaces perceptions of the merits of Diversity and Inclusion to how to make efforts more meaningful.

Following on from this a review of marketing collateral was done against each brand's ethos. Quarterly reviews of progress to ensure marketing collateral alliance to the brand ethos are now part of business-as-usual practices. This work incorporates marketing collateral developed in-house and by our agency partners as well as the social media content generated through third parties i.e., brand ambassadors.

We are committed to our sustainability journey, and we will continue to look for new ways to support our environment, people and community.

“Most households in Australia have at least one McPherson’s brand in their bathroom, pantry or in their travel kits. We want to ensure all our brands live up to their ethos and McPherson’s purpose so we can play our part in growing a more inclusive society. I am proud of the work our brand teams are doing to ensure diversity and inclusivity is reflected in our brands and thus our customers everyday lives”

SUPRIYA SINGH
COMMERCIAL DIRECTOR – ANZ

Caring for Our People

We appreciate and thank all our people for their consistent efforts and contribution to McPherson's

We care for our people and celebrate our Culture.

Caring is who we are – after launching our refreshed values last year, we continue to look for new ways to recognise our employees who embody our values of Care, Innovate, Resilient, Inclusive, Integrity and Grow. Every quarter we recognise these behaviours in our employees, and we celebrate them. Below are our values award winners across 2023.



MATTHEW CHONG
HEAD OF CATEGORY
DEVELOPMENT



MANATU BRUNETE
WAREHOUSE STOREPERSON



DIANNE WASHINGTON
VIC FIELD SALES
REPRESENTATIVE



PETER GASON
BUSINESS OPTIMISATION
MANAGER



JACINTA EVANS
TEAM LEADER ZONE 15
WAREHOUSE



KSENIJA ILIC
BUSINESS INTELLIGENCE
MANAGER



BELINDA DENNIS
SENIOR COMMERCIAL
ACCOUNTANT



GARY CAMILLERI
STRATEGIC CHANNEL MANAGER



JOSEPH HAKLANI
HEAD PRODUCT DEVELOPMENT

Living Our Values

We continue to bring our values to life in everything we do at McPherson's.

Our values brand ambassadors live and breathe our values and continue to boost awareness and support our company culture. Our six values are our guiding force as to how we behave at work, treat each other and our customers.

Care

Care for each other, the environment and the community



Innovate

Innovate and create for a better tomorrow



Resilient

Be resilient and agile in the face of change



Inclusive

Be open and inclusive



Integrity

Act with integrity and respect



Grow

Strive to grow personally and professionally



Caring is
Who We Are

Caring for Our Community

We remained a key pillar of support, caring for our community and partners when they needed it most.

Over the last year we have made conscious decisions to partner with organisations that align with our purpose and values. We are committed to being socially responsible and dedicated to developing our community through collaboration and transformation. Our purpose is to provide care solutions to nurture confident, healthy, and sustainable lifestyles, so we continue to foster and encourage our employees to participate in local initiatives, dedicated to supporting and inspiring others. Our brands are with people in their everyday life and in times of adversity we feel it is our responsibility to give back.

Contributing to Zero Waste

On World Environment Day 1 June 2023 we announced our founding partnership with Good360s Inner Circle Pledge Program, a structured pledge & recognition program designed to support businesses that demonstrate shared values and a strong commitment towards zero waste of usable goods and social impact as a way of doing business. We remain committed to working with Good360 over a three-year period through four main ways.

A trial donation of A'kin surplus stock was donated in May to Good360. Deliveries were made to many states across Australia reaching 31 charities ranging from domestic violence centres to aged care, multicultural centres, and youth groups.



Donating goods



Financial support



Volunteering staff and expertise



Sharing impact stories



We are so pleased we can continue to support those in need during times of need and look forward to witnessing the impact our partnership will make.



Testimonial

“Through Good360 we were able to order A'kin Hand Wash, Body Wash and Hand Cream which will be used in gift bags for our single mums and nans who are raising their siblings' children. We have been doing this for the past 7 years and last year we were able to deliver gift bags to 24 single mums and 10 nans. This year we on target to deliver even more. This photo shows me making up some these gift bags. With our Christmas Gift Appeal last year, we delivered gifts to 180 families which equated to over 400 kids. Central Coast Kids in Need was formed 30 years ago and is a small not for profit volunteer organisation that fundraise to assist families of seriously ill children and children with disabilities on the Central Coast. Over the past 18 years we have paid out more than \$4.4 million and assisted over 3,650 families with accommodation and travel costs, high-cost prescription medications, specialised formula and feeds and quality of life equipment. Thank you McPherson's for helping us help these kids and their families.”

Lorraine Churchill
Secretary, Central Coast Kids in Need





Working to Eliminate Gendered Violence

We are passionate about contributing to a nation free of all forms of gendered violence, harassment, and disrespect. In November 2022 we held fundraising events across our offices with a key focus on meeting people where they're at, including men and boys, to ask what they can do to make change in their own lives and the wider community. Our employees raised a total of \$1,500, with McPherson's matching every dollar, a total of \$3k was raised for White Ribbon Australia. We are working towards a workplace accreditation with White Ribbon Australia to show we are committed to gender equality and creating a safe workplace for everyone.



Partnering to Protect our Ocean



Great Barrier Reef Foundation

We continue to partner with The "Great Barrier Reef Foundation as part of a Sugarbaby collaboration. For three years running, a portion of sales from every Sugarbaby product sold are donated for ongoing care, protection, and management of the World Heritage Listed Site The Great Barrier Reef.

The Great Barrier Reef Foundation works closely with more than 400 partners to regenerate and restore the Great Barrier Reef and building its resilience in the face of climate change and other major threats. In January 2023 we donated another \$10k to the foundation which will be directed to projects with large-scale impact, helping protect coral reefs and the animals that depend on them.



Supporting the Community



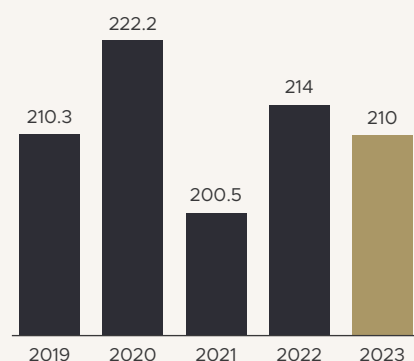
We care about creating a diverse and equitable workplace and an environment where everyone feels safe and comfortable to be themselves at work. Over the last year we have begun taking steps to continue to build a safe and equitable workplace.

We are a proud member of the Welcome Here Project, a project that supports businesses and services throughout Australia to create and promote environments that are visibly welcoming and inclusive of lesbian, gay, bisexual, transgender, intersex and queer people. Our offices display the Welcome Here Rainbow Stickers and Charter to let our employees and visitors know that diversity is welcomed and celebrated.

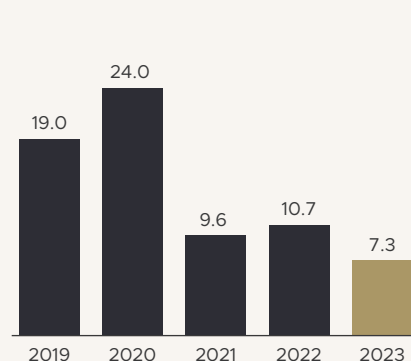
In celebration of World Pride in February 2023 and Pride Month in June 2023 we have hosted events across our offices to bring our people together, educate them and raise funds for The Pinnacle Foundation. We continue to look for new opportunities to support the charity.

Review of Operations

Sales (\$m)

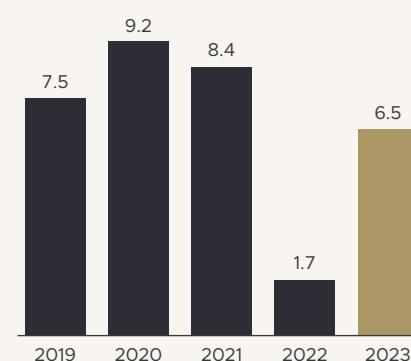


Profit before tax* (\$m)



*Underlying performance excluding certain material items.

Net debt (excl lease liabilities) (\$m)



Results for the year

McPherson's has reported sales of \$210.3 million for the year ended 30 June 2023 (FY23), a 2% decrease on the previous year's \$214.0 million. This decrease was largely due to an \$8.5 million reduction in sales of low margin private label product as the Company has de-emphasised participation in this low margin segment. Sales of the Company's owned brand products increased by \$3.2 million or 2% in FY23.

Sales revenue in the Essential Beauty category, comprising Manicare, Lady Jayne and Swisspers, grew by 12% largely driven by new product innovation introduced in both the pharmacy and grocery channels. The Health brands of Fusion and Oriental Botanicals grew by 2% with strong growth in the pharmacy channel offset by a decline in the specialist health food channel as health food stores close. The Skincare category, comprising Dr. LeWinn's and A'kin, declined by 8%, largely due to a 36% decline in sales of A'kin in the Australian market, in part due to range deletions in the grocery channel and prior to the re-launch of this brand in FY24. Multix sales declined by 11% as consumer cost of living pressures resulted in loss of market share to lower cost alternatives and a reduction in ranging from a key customer in the grocery channel. Agency sales increased by 15%, with strong growth achieved by Chemist Warehouse brands, primarily Bondi Perfume.

The Company's wide variety of market leading brands provides it with a high level of diversification across various product categories being Beauty Essentials, Skincare, Haircare, and Vitamins, Mineral and Supplements as well as Home Essentials. The Company also has broad channel diversification, maintaining strong relationships with the key grocery and pharmacy customers in the Australian and New Zealand markets.

Underlying EBIT (earnings before interest and tax) was \$9.1 million, 23% below FY22 (\$11.8 million), excluding the following material items in FY23:

- Multix brand impairment (\$8.3) million;
- Other brand impairment and asset write down (\$3.4) million;
- Writeback of Dr. LeWinn's inventory provision \$1.0 million;
- Leadership transition costs (\$0.5) million;
- Restructuring expenses (\$0.4) million; and
- Professional fees in relation to ASIC matters (\$0.4) million.

Underlying PBT (profit before tax) was \$7.3 million, 32% below FY22 (\$10.7 million), excluding the PBT impact of the material items noted above. Underlying earnings per share (EPS), excluding material items, decreased by 43% from 5.3 cents in FY22 to 3.0 cents in FY23.

Inclusive of material items, McPherson's reported a statutory loss after tax of (\$5.1) million (FY22: \$0.3 million profit after tax).

McPherson's recorded underlying cash conversion of 51% in FY23 (FY22: 129%). Reflecting the Company's typical seasonality, 2H23 cash conversion was above 100% as the Company reduced its working capital over the six months to 30 June 2023. Net bank debt remains low at \$6.4 million (FY22: \$1.7 million), with the Company's underlying leverage ratio (net bank debt / underlying EBITDA) remaining low at 0.4 times at 30 June 2023 (FY22: 0.1 times). The Company's gearing ratio (net bank debt / total funds employed) was also low at 5.6% at 30 June 2023 (FY22: 1.4%).

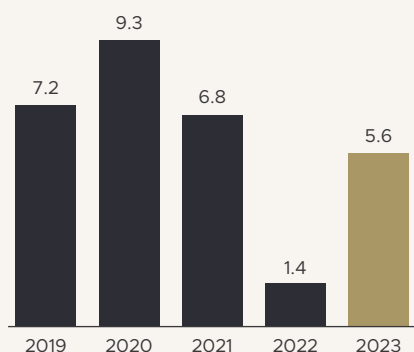
McPherson's Directors declared total ordinary dividends of 3.0 cents per share (cps) fully franked for FY23 (FY22 total ordinary dividend payout of 5.0 cps fully franked). The dividend payout ratio for the year ended 30 June 2023 was 100% of underlying profit after tax (FY22: 97%). A high dividend payout ratio has been maintained due to the Company's low level of gearing and its high franking credit balance.

FY23 Performance by Commercial Business Unit (CBU)

The Company has two Commercial Business Units, being:

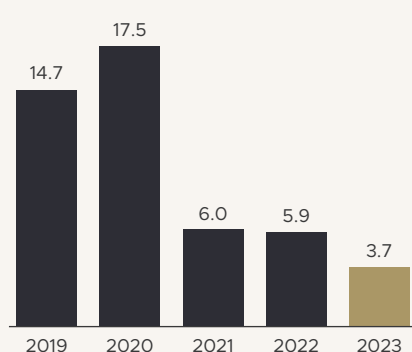
- Australia and New Zealand CBU;
- International CBU.

Gearing* (%)



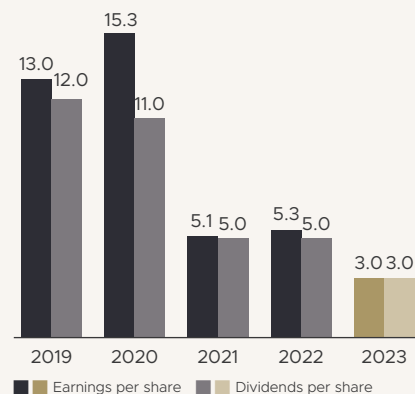
* Net debt excluding lease liabilities / (shareholders' fund + net debt excluding lease liabilities)

Return on average shareholders' fund* (%)



* Underlying profit after tax / 2-year average shareholders' funds.

Earnings and dividends per share (cents per share)



■ Earnings per share ■ Dividends per share

Australia and New Zealand (ANZ) CBU

The ANZ CBU comprises all the Company's brands sold into the Australian and New Zealand Markets.

Segment information	FY23 (\$m)	FY22 (\$m)	Variance (\$m)	Variance (%)
Sales	200.9	206.1	(5.2)	(2.5%)
Underlying EBITDA	20.5	24.5	(4.0)	(16.3%)

The \$5.2m (2.5%) decrease in ANZ sales was driven by an \$8.5m decrease in low margin private label sales and a \$5.7m decline in Multix sales in the grocery channel.

The Company's Essential Beauty brands all experienced strong growth in sales, driven by strong brand value propositions, successful new product launches and robust retailer partnerships. Domestic Skincare sales declined by 10.3%, primarily due to a 35.7% decline in A'kin sales as the brand was impacted by range deletions in the grocery channel and deliberate rundown of inventory prior to the brand's re-launch in FY24. Supply chain disruptions also impacted the availability and sales of key Dr. LeWinn's and A'kin products in 2H23, with sales of Dr. LeWinn's declining by 2.1% in the domestic channel.

Sales of Fusion products increased by 10.0% in FY23, with sales into the pharmacy channel growing by 137%, while the specialist health food channel, which is in decline, decreased by 16%. The Fusion brand has previously had relatively narrow distribution in the domestic pharmacy channel in comparison with the Company's other core brands and was a key beneficiary of the Strategic Alliance with Chemist Warehouse established in March 2022.

Sales of agency brands increased by 9.5%, with sales of private label products declining by 57%.

The overall contribution margin recorded in FY23 was 41.5% (FY22: 40.7%). This improvement in margin was primarily due to the increase in sales of higher margin Essential Beauty and Fusion products and the reduction in sales of lower margin Multix and private label products.

This improvement in margin was achieved despite a net \$1.1m unfavourable variance in \$A/\$US currency, commodity and sea freight cost impacts in FY23.

Operating expenses increased by \$3.9 million or 6.0% from \$64.5 million in FY22 to \$68.4 million in FY23, the primary areas of increase being advertising and promotional expense (\$1.5 million), third party warehousing (\$0.4 million), travel (\$0.3 million) and freight to customers (\$0.3 million).

International CBU

The International CBU comprises the Company's brands sold into geographies other than Australia and New Zealand.

Segment information	FY23 (\$m)	FY22 (\$m)	Variance (\$m)	Variance (%)
Sales	9.3	7.9	1.4	17.7%
Underlying EBITDA	(1.3)	(2.3)	1.0	43.5%

The \$1.4 million (17.7%) increase in International sales was largely due to (i) a \$0.8 million increase in sales in the Singapore market, following a post COVID-19 rebound in tourism and overall consumer demand in this market; and (ii) a \$0.7 million increase in sales of Dr. LeWinn's products into the China market. The future profitability of the South East Asia region will be enhanced by the recent closure of the Company's permanent office in Singapore and the appointment of a local distributor to represent the Company's brands in the region.

The overall contribution margin increased from 38.1% in FY22 to 43.4% in FY23, as the Company cleared excess Dr. LeWinn's inventory at low margins in FY22. Operating expenses were unchanged at \$5.5 million in FY23.

Material items

As noted above, the Company recorded five material items in its FY23 that have been excluded from underlying earnings, the primary material item being the \$8.3 million impairment of the Multix brand following a detailed assessment of its carrying value, applying a fair value less costs to sell methodology. There has also been impairment of other brands and an asset write down totalling \$3.4 million, following a detailed assessment of their carrying values. The remaining material items are considered self-explanatory.

Trusted, market-leading
owned brands



Category Overview

We continued to invest in



Trusted, market leading, owned brands



Innovation programs for the core eight brands that leverage macro trends and drive category growth via premiumisation



Distribution expansion of the core brands to make them accessible to more consumers



Integrated marketing campaigns with a strong focus on owned, earned and paid digital

8 Core Brands

Innovation that drives category growth | Distribution expansion | Integrated marketing campaigns

FUSION health

Multix

manicare®

DR. LEWINN'S®



[Akin]®

swisspers® **GLAM**
by manicare®

Category Overview (continued)

manicare®

Manicare

Manicare beauty tools and accessories market leadership continued to grow from strength to strength, with the brand now holding ~30% market share.

Superior innovation is a strategic imperative for Manicare. In FY23, the brand continued to drive distribution of its salon beauty device range within the pharmacy channel and gained incremental ranging into Big W. Furthermore, innovation within the Manicare portfolio range has delivered premium value across the “extra care” tools range; with on-trend skincare tools that support the latest beauty trends. The Volcanic Rock Roller, Precision Cleansing Wand and Crystal Hair Remover are targeted at beauty enthusiasts who are keen to elevate their routine. These successful new product launches within the portfolio and recognition through consumer awards, e.g., Beauty Heaven Best in Best Awards, continue to fuel the growth of Manicare.

Reinvention of the core range has unlocked value growth for the brand. The first Recycled Polyester Bath Sponge, Exfoliating Gloves and Back Scrubber, drove value growth in the bath segment and brought 100% recycled content offerings to consumers. In addition, Manicare has reinvented facial sponges with the latest technologies, in response to increasing make up occasions.

Manicare has also experienced strong growth through increased core ranging in the grocery channel.

Manicare's commitment to educating consumers on the latest beauty tips and tricks through new beauty tools is supported via the brands social media vehicles. The communication approach is designed to ultimately support self care at home and continue to build trust with a diverse consumer base. The latest Consumer Brand Equity tracking, conducted in January 2023, shows both brand awareness (71%) and trial (28%) are the highest since 2017*.



* Data sourced from Paradigm Shift based on Brand Health Tracking Study January 2023.



Glam by Manicare

In FY23, Glam's sales continued double digit growth due to an exceptional sales result over the "party season" from September to December.

Glam launched superior innovation via the next generation of Glam by Manicare Pro Magnetic Infused lashes in April 2023. This latest technology has vastly improved wearability through the magnetic infused lash band. Combined with the latest 3-in-1 Adhesive Eyeliner, as the perfect duo, this will further appeal to frequent lash wearers through increased staying power.

With the success of the Glam Ready range of pre-glued lashes, we continue the momentum with various line extensions, addressing the latest lash trends to attract new users to the brand. Recently, with only six months in market, the Glam Ready pre-glued Billie lash was awarded the "Best New Lash Product" in Beauty Heaven Glosscar 2023 award.

Glam by Manicare continues to strengthen its portfolio through expansion in adjacent segments. In May 2023, Glam expanded its brands expertise in professional make up brushes into the Body range, and launched the latest nano bristle Body Blending Brush. The appeal of the Glam beauty tools segment continues to grow, and the Glam by Manicare Lash Guard has won the "Best New Makeup Tool" in the Beauty Heaven Glosscar 2023 awards.

This result shows the strength of Glam as the number two Beauty Tools and Accessories brand right behind Manicare, jointly building an \$80 million retail sales value brand portfolio*.



* Data source from Circana Market Edge based on data definitions powered by McPherson's Consumer Products, Australian Grocery & Pharmacy Weighted Market, Beauty Tools and Accessories Category, MAT To 09/04/2023

Category Overview (continued)



Lady Jayne

Lady Jayne achieved double digit growth in annual sales in FY23. The brand is driving category growth, accelerating ahead of the market in all key segments, predominately driven by the Brushes subcategory which is led by the Detangling segment.

In-market pharmacy performance for the brand delivered strong share gains, strengthening market leadership.

The expansion of Lady Jayne's portfolio into 'rechargeable' styling tools, "Lady Jayne Hair Straightening Brush" was a significant driver of incremental value to the portfolio. Lady Jayne's launch campaign for the device included dedicated social and digital support to drive ground-swell trial, with the highly engaged 'Hair Devotee and Trend Seeker' consumer set. Pharmacy channel customers supported the launch via off-location and National TV support, driving new trial and demand for the on-trend tools. In May Lady Jayne launched the 2nd in the series, NEW Volumising HOT Brush, retailing at \$85, as the brand looks to support consumers to step up their current hair styling regimen.

Lady Jayne has also experienced strong growth rates via a core range of brushes and accessories within Coles.

In October 2022 Lady Jayne launched a complementary range of quality scalp health brushes, tailored to specific hair concerns to further add a premium product to the segment; the range includes exfoliating, soothing and massaging brush types.

Reinvention also remains a core pillar of Lady Jayne's successful transformation over the last few years; accessories are the key volume driver and complimentary purchase; with Lady Jayne continuing to build momentum with on trend fashion updates to clips, headbands, claw grips and scrunchies to drive interest and attract new users to the brand.



swisspers®

Swisspers

Swisspers had a strong year in FY23, maintaining its position as the #1 Cotton Brand in Australia.

FY23 growth has primarily come from the Pharmacy channel.

Swisspers Baby Cotton range was launched in FY22 with new packaging and organic cotton. The new nursery design features babies on clouds, to emphasise the softness of our Swisspers cotton. The recent adoption of organic cotton positions Swisspers as a premium brand that is socially responsible, supporting fair trade and labour conditions, and grown without harmful chemicals, leading to healthier soil and ecosystems.

Swisspers Organic Cotton Pads 70 pack with Eco Dispenser won the Glosscar Runner Up Award for 2023, in the “Best New Makeup Remover” category. In this award event, run by Beauty Heaven for the past 14 years, VIP members cast their votes on the best new products.

As the leader of this category, Swisspers strives to identify gaps in consumer needs and aims to continually upgrade, renew, and innovate. Having identified the close relationship between cotton and skincare, Swisspers brought innovation to cotton pads in FY23 with the launch of Swisspers Earth Kind 3 in 1 Cleanser Infused Pads in two variants, Aloe Vera and Argan Oil. The Aloe Vera and Argan Oil are infused into the cotton fibres and remain dry until activated with a few drops of water, which brings the active ingredient to the surface. This cotton pad taps into 3 crucial steps of the skincare routine: cleansing, toning, and moisturising.

The unique usage results in several benefits for the consumer; time saving, cost saving, travel friendly and lightweight.



Category Overview (continued)

DR. LEWINN'S®

Dr. LeWinn's

Dr. LeWinn's continued to demonstrate clinical expertise and innovation within the skincare category, while strategically refining the brand offering to ensure success across key global markets. Driven by a combination of innovation, renovation, promotional performance and an established communications strategy, Dr. LeWinn's has continued to strengthen its position in the skincare category both locally and internationally. The recent expansion of the brand into inner beauty has bolstered the brand growth and positioning in the skincare category.

FY23 Highlights

- Dr. LeWinn's innovation strategy focused on high-growth segments that allowed range optimisation, encouraged customisation, and sought to offer consumers a total skincare regime solution.
- The Ultra R4 and Line Smoothing Complex ranges dominated the brands growth in the first half of the year while the second half has seen growth predominantly coming through the inner beauty range and serum series launch. The heritage range of Private Formula is experiencing on-going strong demand, especially as the economic climate changes due to its attractive value proposition.
- The serum series launch saw the brand introduce bold new formulations and an exciting proposition designed to seize attention in a highly competitive, specialised category. This launch outperformed expectations, featuring in the top ten new product launches in the skincare category in both Australia and New Zealand. As the biggest launch in the brand's recent history, it was paramount that it was

utilised as a vehicle for Dr. LeWinn's to cement its position as Australia's #1 Cosmeceutical Skincare Brand*. A narrative communicated with confidence via a national media campaign but also allowing the brand's proposition to gain traction in our international markets.

- Dr. LeWinn's also built on the continued success of its inner beauty offering within the brand portfolio, which already offers differentiation within the category in terms of format and flavours, pushing the boundaries of its current range. The recent launch of the Vegan Collagen and Hyaluronic Acid Range, available in both liquid shots and powder, with new flavours, has brought a renewed and fresh focus on the inner beauty range.
- Dr. LeWinn's has expanded its footprint in China to return to growth. The brand is progressing from a single sales channel to a matrix covering both public and private domains. The entry into public platforms has set a solid foundation for Dr. LeWinn's continuous growth and has successfully increased its brand awareness in China via different vehicles including owned social media, livestreaming, and digital campaigns. With market confidence resuming, it also opens the door for Dr. LeWinn's to introduce its bespoke and powerful new serum series into the China market in early FY24.

In the year ahead, Dr. LeWinn's will drive a refined portfolio strategy, inclusive of packaging considerations to support McPherson's sustainability goals, while supporting consumers ease of navigation and to improve awareness conversion to trial for the brand. There will be an emphasis on an integrated brand approach across media and digital platforms in all markets, building on the established successes in the domestic market while fuelling international growth.

* IRI MarketEdge with data definitions provided by McPherson's Consumer Products. Australian Pharmacy Market, Facial Skincare Cosmeceutical Category MAT 22/05/22 based and ranked on Australian Cosmeceutical brands.



[A'kin][®]

A'kin

A'kin continued to drive its heritage and strength throughout the year; leveraging 35 years of natural beauty expertise, Australian made and owned, with proven formulations to maintain credibility across natural beauty categories, where continued demand for treatment products and an increase in demand for natural deodorants are foundations for future growth.

FY23 Highlights

- A'kin is ranked 8th in the deodorants category and is a dominant player in the naturals sub-segment within the pharmacy channel, paving the way to enter new channels and markets in the future.
- The brand saw increased distribution of its Daily Shine and Volumising haircare ranges including the miracle shine hair mask in Woolworths expanding the brand offering in grocery.
- Treatments continued to grow, driven by the grocery channel, with future potential for growth within the hair care category.
- A'kin launched a compelling brand-led campaign with cross-category support and the key message of '#representreal' as the brand transitions to a master brand-led marketing approach. The campaign embraced diversity and authenticity, communicating the brand proposition of real ingredients, real results and real Australian beauty. This enabled the brand to drive differentiation and stand out in the category while also achieving scale across categories.
- A'kin extended its brightening skincare range, launching a new vitamin C enriched moisturiser and cleanser duo supported by strong clinical claims.
- A'kin in China is building Volumising shampoo as the next hero product which is on trend with consumer needs. This product has been extensively seeded on Little Red Book with influencers sharing their user experience. Livestreaming has also been leveraged to drive traffic and convert sales while reaching out to a mass audience. Deodorants have also been launched to tap into the growing China market, expanding the brand offering across the naturals category.

Looking ahead A'kin will re-establish its position as a leader across the naturals category, with highly efficacious formulations, proven claims and improved shelf presence. A robust support plan inclusive of social & digital media and in-store activity will drive the brand's growth, while continuing to pursue global opportunities.



Category

Overview (continued)



Fusion Health

FY23 was a landmark year for Fusion Health, expanding its reach into the Australian pharmacy channel. Historically Fusion Health was primarily available in the health food channel, so this strategic shift will amplify future growth, with pharmacy representing approximately ten times more outlets than the health food channel.

At the same time, McPherson's has continued to support health stores.

Fusion Health achieved over \$5M in sales in the Pharmacy Channel with Chemist Warehouse, and is over-indexing in key growth segments in the competitive VMS space including:

- Stress and Sleep
- Cold, Flu and Immunity
- Muscle, Bone and Joint

Innovation in FY23 aligned with the brand's focus on the Stress and Sleep segment, with the launch of Fusion Mood Support, containing affron, a proprietary saffron extract shown to support healthy emotional balance in adults and teens, relieve fatigue, stress and mild anxiety symptoms, and promote refreshing sleep.*

Unlike key competitors, Fusion Mood Support also contains Reishi mushroom to promote mental calmness based on its use in traditional Chinese medicine. Along with vitamins B5 and B6 to aid in the production of neurotransmitters and support healthy stress responses in the body, Fusion Mood Support also includes plus Zinc to support healthy brain and cognitive function.

Fusion's expansion in pharmacy, along with the ongoing support of health stores was leveraged with the brand's first television advertising campaign in almost a decade, promoting Fusion Stress & Anxiety. In total the campaign reached 5.6 million people, an average of 6.4 times. Fusion's social media advertising reached over 3.6 million people, an increase of 11% over the previous year.

Fusion Health marketing repeated its award-winning success of the previous year, again being recognised for two prestigious industry awards this time for our Immune Fitness campaign:

- The Complementary Healthcare Products (CHP) award for most outstanding digital/social media campaign; and
- The CHP Self Care Excellence Award

Fusion Health has a suite of education offerings including live events, webinars, online learning, and customer-specific events that continue to be well received for their quality and suitability. Fusion Health has significantly expanded its online learning options and its online learning portal, McPherson's Academy, which saw over 5000 interactions including module completions and visits to the new Medicine Interactions Guide for healthcare professionals. Our Educators have delivered 57 live webinars and returned to delivering face-to-face events with 15 sessions around the country.

In FY23 the team has educated 2,000 learners, while the Naturopathic Advisory Team provided individualised, expert advice to over 2,500 retail staff and consumers.



* 1. Kell, G. et al. Complement Ther Med, 2017;33:58-64. 2. Lopresti, A.L. et al. J Affect Disord, 2018;232:349-357. 3. Lopresti, A.L. et al. J Psychopharmacol, 2019;33(11):1415-1427. 4. Lopresti, A.L. et al. J Clin Sleep Med, 2020;16(6):937-947. 5. Orio, L. et al. Molecules, 2020;25(14):E3207. 6. Lopresti, A.L. et al. Sleep Med, 2021;86:7-18. 7. Lopresti, A.L. & Smith, S.J. J Menopausal Med, 2021;27(2):66-78. 8. Lopresti, A.L. & Smith, S.J. J Internat Soc Sports Nut, 2022;19(1):219-238



Multix

Despite a challenging economic environment, this premium brand maintained #1 position in bake paper, garbage bags, foil and freezer bags segments and #2 position overall in the broader bags, wraps and foils category.

To encourage consumers to choose Multix, the "Get more with Multix" digital media and influencer campaign positioned Multix as a brand that understands consumers and the challenges they are facing in a tough economic environment by showing how Multix products can be useful around the house, not just for cooking and storing food.

Multix Greener Plant Based Cling has been awarded 2023 Product of the Year title in the Sustainable Household Products category, based on a NielsenIQ survey of 5,000 Australian consumers. This win had a halo effect on the entire Multix Greener range.

Another recognition Multix won, as voted by 3,000 category buyers, was the Canstar Blue "Most Satisfied Customers 2023 in Food Wraps" award. This award encompasses alfoil, bake paper, cling wrap, sandwich, and storage bag.

Education remains the main communications pillar for the brand. Multix participated in retailer environmental events including World Environment Day and Recycling Week, talking to shoppers about the benefits of various sustainable technologies in a contextually relevant environment.

The Innovation strategy for FY23 has been to extend existing technologies into new segments and pack sizes. In FY23 Multix commenced the food wraps packaging optimisation project, which will result in transport and stock management efficiencies from FY24.

Key changes covered include reducing the size or removing the cardboard core, reducing the size of dispenser boxes and increasing the number of units in a carton from 12 to 16.



Information on Directors

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



ARI MERVIS
B.COMM

Chair of the Board

Expertise and experience

Mr. Mervis was appointed an Independent Non-Executive Director of McPherson's Limited on 16 February 2021, Deputy Chair on 27 April 2021 and Chair of the Board from 21 July 2021. He was appointed as member of the Audit Committee and the People and Culture Committee on 22 February 2022.

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 Chair 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 Chair 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

- Chair of the Board
- Executive Chair from 1 June 2023 until 31 July 2023
- Member of the Audit Committee and the People and Culture Committee

Other current Directorships in ASX listed companies

- Myer Holdings Limited

Former Directorships in ASX listed companies in last three years

- None

Interests in shares and performance rights

- 150,000 ordinary shares in McPherson's Limited
- No performance rights held



BRETT CHARLTON
B.COM

Managing Director and Chief Executive Officer
from 1 August 2023

Expertise and experience

Mr Charlton was appointed CEO and Managing Director of McPherson's Limited on 1 August 2023. Mr. Charlton is a growth-focused CEO, Non-Executive Director, and commercial leader who has developed an international career in the consumer goods industry across the Asia Pacific region. Mr. Charlton has worked with a gold standard set of companies, including Diageo, PepsiCo, Fonterra, Sanofi, and Private Equity, for over 25 years before channelling his experience into advisory and consulting services.

Mr Charlton is a strategic thinker who connects the dots between divisions for organisations, with a speciality in governance and operations of organisations large and small. He is a respected confidant to leaders in the ASX c-suite and a trusted advisor to Boards, CEOs, and functional General Managers.

Mr Charlton is a Graduate and Fellow of the Australian Institute of Company Directors and the Graduate School of Management from IMD in Lusanne, Switzerland, while holding a Bachelor of Commerce (Marketing and Human Resources) from Griffith University.

Special responsibilities

- Managing Director and Chief Executive Officer (appointed on 1 August 2023)

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

- None



JANE M. MCKELLAR
MA (HONS) CISL

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, and held that position until 22 February 2022. She was appointed a member of the Board's Risk and Compliance Committee on 22 February 2022.

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. Ms. McKellar is also on the Board of The NRMA.

Special responsibilities

- Chair of the People and Culture Committee
- Member of the Risk and Compliance Committee

Other current Directorships in ASX listed companies

- Director of GWA Group Limited
- Director of Noumi Limited

Former Directorships in ASX listed companies in last three years

- None

Interests in shares and performance rights

- 11,533 ordinary shares in McPherson's Limited
- No performance rights held



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. She was appointed a member and Chair of the Audit, Risk Management and Compliance Committee on 19 January 2021, and held that position until 22 February 2022. She was appointed a member of the People and Culture Committee, member of the Audit Committee and Chair of the Risk and Compliance Committee on 22 February 2022.

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 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

- Chair of the Risk and Compliance Committee
- Interim Chief Operating Officer from 1 June 2023 until 8 August 2023
- Member of the People and Culture Committee
- Member of the Audit 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

- 15,500 ordinary shares in McPherson's Limited
- No performance rights held

* As disclosed in the "CEO and Managing Director's Remuneration" announcement provided to the ASX on 17 December 2021, a cash based LTI arrangement (cash payment for the number of rights vested multiplied by the Company's share price on the Payment Date) will operate for Mr. Peck's 624,000 HLP and 312,000 ELP rights for FY2022 which adopts the same challenging performance criteria and performance periods over 3 and 4 years as set out in the 2021 AGM Notice of Meeting.

Information on Directors



HELEN L. THORNTON

CA, B.EC

Independent Non-Executive Director

Expertise and experience

Ms. Thornton was appointed as Non-Executive Director on 20 December 2021. She was also appointed as Chair of the Audit Committee and member of the Risk and Compliance Committee on 22 February 2022.

Ms. Thornton has extensive financial, risk management, audit and governance expertise, aligned with strong strategic capabilities, and leadership and relationship management skills.

Ms. Thornton is a Chartered Accountant with a diverse background in financial services, manufacturing, utilities, mining and property in both public and private corporations, and also with government statutory authorities. She is an experienced member and chair of audit, compliance and risk committees.

Ms. Thornton's executive roles have included Vice President - Risk Management of BlueScope Steel Ltd and senior roles at BHP, Deloitte and KPMG.

Current non-executive directorships include: ISPT Pty Ltd, Treasury Corporation of Victoria, Ansva Insurance Ltd and Yarra Valley Water. Helen is also currently a member and chair of a number of board committees, including audit and risk committees, and nomination and remuneration committees.

Ms. Thornton holds a Bachelor of Economics from Monash University and is a Graduate Member of the Australian Institute of Company Directors.

Special responsibilities

- Chair of the Audit Committee
- Member of the Risk and Compliance Committee

Other current Directorships in ASX listed companies

- Non-Executive Director of Arena REIT

Former Directorships in ASX listed companies in last three years

- None

Interests in shares and performance rights

- 20,000 ordinary shares in McPherson's Limited
- No performance rights held

Corporate Governance Statement

McPherson's Limited submitted its Corporate Governance Statement and ASX Appendix 4G for the year ended 30 June 2023 to the Australian Securities Exchange (ASX) on 27 October 2023.

The Corporate Governance Statement sets out key aspects of the McPherson's Limited Group's ("Company" or "Group") corporate governance framework and main governance practices. The Board of Directors is committed to achieving and demonstrating the highest standards of corporate governance, which is considered to be essential for the long-term performance and sustainability of the Group and to protect and enhance the interests of shareholders and other key stakeholders.

Review of Corporate Governance Arrangements

The Company and Board regularly review the Group's governance arrangements, as well as developments in market practice, stakeholder expectations and regulation. The related Board charters and policies have been subject to further Company and Board reviews and update in FY23.

Corporate Governance Statement Approval

The 2023 Corporate Governance Statement has been approved by the Board and is current as at 26 October 2023. The statement outlines the Group's main corporate governance practices in place during the financial year ended 30 June 2023 and until the date of the statement.

The Corporate Governance Statement, Appendix 4G and copies of the governance documents referred to in the statement can be found in the Corporate Governance section of the McPherson's Limited website, which is located at the following address: <https://www.mcphersons.com.au/corporate-governance>

Directors' Report

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 2023.

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">– Chair of the Board– Member of the Audit Committee and the People and Culture Committee– Appointed as Executive Chair on 1 June 2023 until 31 July 2023
B. Charlton	<ul style="list-style-type: none">– Appointed as Chief Executive Officer and Managing Director on 1 August 2023
G.W. Peck	<ul style="list-style-type: none">– Resigned as Chief Executive Officer and Managing Director on 31 May 2023
J.M. McKellar	<ul style="list-style-type: none">– Chair of the People and Culture Committee– Member of the Risk and Compliance Committee
A.J. Cook	<ul style="list-style-type: none">– Chair of the Risk and Compliance Committee– Member of the Audit Committee and the People and Culture Committee– Appointed as Interim Chief Operating Officer on 1 June 2023 until 8 August 2023
H. Thornton	<ul style="list-style-type: none">– Chair of the Audit Committee– Member of the Risk and Compliance Committee
G.R. Pearce	<ul style="list-style-type: none">– Resigned as a Non-Independent Non-Executive Director on 22 November 2022

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.

Manufacturing is outsourced to various suppliers, predominantly in Asia and Australia. McPherson's maintains a strong presence in Hong Kong and has representation in 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 2.0 cents per fully paid ordinary share paid on 6 April 2023 (fully franked)	2,879
Final ordinary dividend of 1.0 cents per fully paid ordinary share declared by the Directors (fully franked) and payable on 22 September 2023 but not recognised as a liability at year end	1,439
Total dividends in respect of the financial year	4,318

The 2022 final ordinary dividend of \$2,879,000 (2.0 cents per fully paid ordinary share) was paid on 23 September 2022. A full year dividend of \$5,752,000 (5.0 cents per fully paid ordinary share) was paid in respect of the 2022 financial year.

d) Consolidated results

The consolidated loss after tax of the Group for the financial year ended 30 June 2023 was \$5,061,000 (2022: \$333,000 profit after tax). The current year loss after tax is inclusive of material items amounting to a net expense after tax of \$9,368,000 (2022: \$6,630,000). The consolidated profit after tax for the year ended 30 June 2023, excluding material non-recurring items, was \$4,307,000 (2022: \$6,963,000). Refer to Note 3 Material Items for further information.

Directors' Report

e) Review of operations

An extract of the review of operations of the Group is set out on pages 14 to 15 of the Annual Report and forms part of the Directors' Report.

Risk management and compliance

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

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

The Company's Risk and Compliance Committee has primary responsibility regarding oversight of risk identification and risk mitigation, as well as responsibility for matters pertaining to compliance and governance.

The Managing Director is accountable to the Board for the development and management of the Company'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 Risk and Compliance Committee of the Board. The Senior Leadership Team of the Company 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 affect the Company's financial prospects, and how the Company manages these risks, include:

– Workplace health and safety

Given the physical nature of the Company's operations, workplace health and safety are of paramount importance. 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.

– Reduction in consumer demand or decline in a singular product category

Given the Company's reliance on consumer spending, adverse changes to the general economic landscape in Australasia or consumer sentiment for the Company'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, attendance at international trade shows, innovative product development and brand building.

The Company also mitigates against the risk of singular category decline, by maintaining broad category participation, in Beauty Essentials, Skincare, Haircare, and Vitamins, Mineral and Supplements as well as Home Essentials.

– Elevated inflationary pressures

The global economy is currently experiencing significant inflationary pressure. The Company has been impacted by material cost increases in many input costs, most materially in sea freight. The Company seeks to mitigate the impact of cost increases by improving operational efficiencies and increasing selling prices where required.

– Foreign currency fluctuation

The Company sources most 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 Company's result. The Board has established, and regularly reviews the Company's foreign currency hedging policy with the objective of mitigating short to medium term foreign currency risk.

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

– Raw material price fluctuation

A significant proportion of the Company'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 usually 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 Company's sales is to a significant 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. To mitigate this risk, the Company strives to provide superior customer service, product innovation and competitive pricing. The Alliance with Chemist Warehouse, established in March 2022, has formalised a much closer relationship with this key customer and is a key risk mitigation strategy.

– Key Supplier Redundancy

The Company 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, with geographical diversity, have been identified for all key suppliers.

– Investment of Capital

Given the strength of the Company's balance sheet, the risk element is deployment of capital to investments that do not present acceptable risk / reward outcomes for the Company's shareholders. The following measures are 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 were deemed necessary for smaller investments and mandatory for investments more than \$10 million.

Directors' Report

e) Review of operations (continued)

– Deficiency in product quality

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

– Compliance with debt facility undertakings

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

– Cyber security

The Company 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 Company's ability to transact and hence affect its earnings. The Company 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 internal staff training, 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 the Company's People and Culture team establishing talent development plans, well targeted incentive programs and succession plans.

– ESG / Sustainability

The rapid evolution of regulatory requirements and social expectations in the areas of Environmental, Social and Corporate Governance is manifest in legislation and the expectation of key stakeholders such as customers, consumers and employees to adopt more sustainable products and practices. The Company recognises the need to have a well-defined and articulated plan to adopt more sustainable products, services and practices and has dedicated internal capabilities to achieve these goals. The program is routinely reviewed by the Risk and Compliance Committee.

– 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.

– Intangible asset valuation

As an owner of brands and other intangible assets, the size of this asset class on the Company's balance sheet is relatively high. Given the sensitivity of key assumptions (such as discount rates) used to determine the valuation of intangible assets, it is an area of high inherent risk. The risk is managed through regular assessment of individual brand and cash generating unit cashflow projections and the engagement of external valuation experts in the review of key assumptions and valuation methodologies.

f) Significant changes in the state of affairs

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

g) Events subsequent to balance date

No other matter or circumstance has arisen since 30 June 2023 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

The Company's strategy is to leverage its fundamental business strengths, being its world class brands, our tenured customer relationships and our committed people, to become a more focused and efficient business in the Health, Wellness and Beauty segment, both in Australasia and globally.

Key elements of our strategy are reduction of complexity and simplification of what we do, creating operational excellence in our processes and a culture of continuous improvement. Externally we will serve our consumers well with strong brands in leading customers, consequently the Company's focus will be to grow these relationships.

The Company is confident that executing this strategy will generate profitable growth in a sustainable manner, noting that the Company's current strong financial position provides a firm foundation for future growth and financial stability.

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 2023.

Directors' Report

i) Information on Directors

Particulars of the qualifications, experience and special responsibilities of each Director as at the date of this report are set out on pages 26 to 28 of the Annual Report (except for the former Directors of McPherson's Limited) and form part of the Directors' Report.

Grant W. Peck

B. Bus, CA

Managing Director and Chief Executive Officer until 31 May 2023

Expertise and experience

Mr. Peck was appointed an Independent Non-Executive Director of McPherson's Limited on 14 December 2017 and held that position until 9 December 2020. With effect from 20 February 2018, Mr. Peck was appointed a member and Chair 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 Chair) of the Audit, Risk Management and Compliance Committee on 19 January 2021, and ceased to be a member of the People and Culture Committee with effect from 22 February 2022.

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 and resigned on 31 May 2023.

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 (until 31 May 2023)

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
- 1,364,000 performance rights held over shares
- 936,000 cash based performance rights*

Geoffrey R. Pearce

Non-Independent Non-Executive Director until 22 November 2022

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.

Special responsibilities

None

Other current Directorships in ASX listed companies

None

Former Directorships in ASX listed companies in last three years

- Non-Executive Director and Chair of Probiotec Limited
- Non-Executive Director of Cann Group Limited (resigned with effect from 17 February 2022)

Interests in shares and performance rights

- 655,939 ordinary shares in McPherson's Limited
- No performance rights held

* As disclosed in the "CEO and Managing Director's Remuneration" announcement provided to the ASX on 17 December 2021, a cash based LTI arrangement (cash payment for the number of rights vested multiplied by the Company's share price on the Payment Date) will operate for Mr. Peck's 624,000 HLP and 312,000 ELP rights for FY2022 which adopts the same challenging performance criteria and performance periods over 3 and 4 years as set out in the 2021 AGM Notice of Meeting.

Directors' Report

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 2023, and the number of meetings attended during that period by each Director, are set out below:

Directors	Board meetings		Audit Committee meetings		People and Culture Committee meetings		Risk and Compliance Committee meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Ari Mervis ¹	19	19	6	6	4	4	—	—
Grant W. Peck ²	18	18	—	—	—	—	—	—
Jane M. McKellar	19	19	—	—	4	4	4	4
Geoffrey R. Pearce ³	5	4	—	—	—	—	—	—
Alison J. Cook ⁴	19	19	6	6	4	4	4	4
Helen L. Thornton	19	19	6	6	—	—	4	4

1. Ari Mervis was appointed as Executive Chair on 1 June 2023 until 31 July 2023.

2. Grant Peck resigned on 31 May 2023.

3. Geoffrey Pearce resigned on 22 November 2022.

4. Alison Cook was appointed as Interim Chief Operating Officer on 1 June 2023 until 8 August 2023.

j) Company Secretaries

Philip R. Bennett

B.Com, CA

Joint Company Secretary
until 30 November 2022

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 Cootes Limited and OPSM Limited. Prior to that, Mr. Witheridge spent six years within KPMG's Audit and Assurance Practice.

Linda Gough

B.Com, LLB, LL.M, GAICD, AGIA

Joint Company Secretary
from 16 January 2023

Expertise and experience

Ms. Gough was appointed Company Secretary of McPherson's Limited on 16 January 2023. Ms. Gough previously held the role of General Counsel and Company Secretary of WPP AUNZ Limited.

Ms. Gough has over twenty years legal and governance experience, advising listed and non-listed entities in ANZ, Asia and North America, including WPP AUNZ Limited, Fairfax Media Limited, SAP Australia and George Weston Foods. She holds a Bachelor of Law from the University of Toronto, Canada, a Master of Laws from the University of New South Wales, a graduate diploma in governance from the Governance Institute of Australia and is a graduate member of the Australian Institute of Company Directors.

Directors' Report

k) Remuneration Report

Letter from the Chair of the People and Culture Committee

Dear Shareholders,

This Remuneration Report sets out remuneration information for the Chief Executive Officer (**CEO**), the Chief Financial Officer (**CFO**), and Non-Executive Directors, collectively the Key Management Personnel (**KMP**). It describes the McPherson's Executive Remuneration Framework and pay outcomes for 2022/23 (FY23), and the intended Remuneration Framework for 2023/24 (FY24), in a way that is simple and transparent.

Our Remuneration Report provides shareholders with an 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 a highly capable management team.

FY23 Remuneration Outcomes

The Company's performance in FY23 was well below expectations, reflected in negative total shareholder return (**TSR**) over the year. These are reflected in the outcomes of both short term incentive (**STI**) and long term incentive (**LTI**) for the CEO and CFO.

Changes to FY24 Remuneration Structure

FY24 Short-Term Incentives (STI)

The Board has approved the following STI program for FY24 for the Senior Leadership Team (SLT) members, inclusive of the CEO and CFO, noting that all underlying profit before tax (**PBT**) thresholds below are self-funding, i.e. inclusive of the requisite provision for STIs and LTIs.

FY23 STI structure

70% of STI is based on two financial performance metrics:

- 50% of STI is based on underlying profit before tax (**PBT**) with vesting commencing at the FY22 underlying PBT of \$10.7 million, then pro rata to 100% vesting at 20.0% above the budgeted FY23 underlying PBT; and
- 20% of STI will be based on sales revenue with vesting commencing at \$10.0 million below budgeted FY23 sales revenue, then pro rata to 100% vesting at \$10 million above budgeted FY23 sales revenue.

30% will be based on non-financial measures, being pre-determined significant role specific objectives.

All the above STI elements are subject to the qualification gate of \$10.7 million in underlying PBT.

The Senior Leadership Team, inclusive of the CEO and CFO, did not qualify for an STI in FY23 as minimum thresholds were not achieved. LTIs in the form of performance rights issued in 2020, which have been assessed based on FY23 outcomes, did not vest in the current year as the Earnings Per Share (**EPS**) and Total Shareholder Return (**TSR**) measures were below the minimum thresholds required under the LTI plan.

The total fixed remuneration (**TFR**) of the CEO and base Non-Executive Directors fees were not adjusted in FY23.

The CFO received a 3.3% increase in TFR effective 1 October 2022.

Appointment of new Chief Executive Officer & Managing Director

Following the resignation of the former CEO, effective 31 May 2023, the Company announced the appointment of Brett Charlton as its new CEO effective 1 August 2023.

Mr Charlton's commencing remuneration package comprises (i) TFR of \$630,000 per annum; (ii) an STI opportunity up to 75% of his TFR, with 50% of any achievement to be deferred for one year and (iii) subject to shareholder approval, an LTI opportunity up to 100% of his TFR if pre-defined (High Level Performance) LTI targets are met over a three-year period, plus an additional 50% of his TFR if pre-defined (Exceptional Level Performance) LTI targets are met over a three-year period.

FY24 STI structure

70% of STI is based on two financial performance metrics:

- 50% of STI is based on underlying profit before tax (**PBT**) with vesting commencing at \$11.0 million, then pro rata 0% from \$11.0 million to 100% at \$15.8 million being 18% above the budgeted FY24 underlying PBT; and
- 20% of STI will be based on sales revenue with vesting commencing at \$10.0 million below budgeted FY24 sales revenue, then pro rata to 100% vesting at \$10 million above budgeted FY24 sales revenue.

30% will be based on non-financial measures, being pre-determined significant role specific objectives.

All the above STI elements are subject to the qualification gate of \$11.0 million in underlying PBT.

FY24 Long-Term Incentives

Given the recent appointment of Brett Charlton as Managing Director / CEO, the Board will determine the terms in relation to the FY24 LTI structure and performance rights shortly after Brett's commencement, cognisant that the grant of LTI performance rights to the Managing Director is subject to shareholder approval.

On behalf of the Board, I encourage you to read the report in full and we welcome your feedback.

Yours sincerely

Jane McKellar

Chair of the People and Culture Committee

Directors' Report

k) Remuneration Report (continued)

The McPherson's Limited FY23 remuneration report sets out key aspects of the Company's remuneration policy and framework and provides details of the remuneration awarded to the Company's Non-Executive Directors, Managing Director / CEO and CFO, collectively key management personnel.

The remuneration report contains the following sections:

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

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

Directors' Report

k) Remuneration Report (continued)

1. Key Management Personnel

KMP is defined as persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. For the purposes of this report, the term Executive is used to refer to KMP who are Executives.

Name	Role	Term as KMP in FY23
Executives		
G.W. Peck	Chief Executive Officer and Managing Director	Resigned on 31 May 2023
A.J. Cook	Interim Chief Operating Officer	Appointed on 1 June 2023 until 8 August 2023
A. Mervis	Executive Chair	Appointed on 1 June 2023 until 31 July 2023
P. Witheridge	Chief Financial Officer and Joint Company Secretary	Full year
Non-Executive Directors		
A. Mervis	Chair of the Board	Appointed as Executive Chair from 1 June 2023 until 31 July 2023
J.M. McKellar	Non-Executive Director	Full year
G.R. Pearce	Non-Executive Director	Resigned on 22 November 2022
A.J. Cook	Non-Executive Director	Appointed as Interim Chief Operating Officer from 1 June 2023 until 8 August 2023
H.L. Thornton	Non-Executive Director	Full year

Changes since the end of the reporting period

The Company has appointed Brett Charlton to the role of Managing Director and Chief Executive Officer (CEO), effective 1 August 2023.

2. Principles used to determine the nature and amount of remuneration

The Company'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	Performance-based and equitable	Aligned with shareholders and underpinned by sound risk management
<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. 	<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. 	<ul style="list-style-type: none"> Long-term share-based awards, with vesting subject to the achievement of earnings per share (EPS) and total shareholder return (TSR) performance targets and time-based vesting conditions. Remuneration processes and governance in place to ensure that remuneration arrangements encourage prudent risk management.




Directors' Report

k) Remuneration Report (continued)

2. Principles used to determine the nature and amount of remuneration (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.

On Boarding Attract key talent into inclusive environment	Inspire High performing winning culture	Develop Talent management	Career Succession planning	Retain Reward & recognition
 FR Fixed Remuneration ↓	 STI Short Term Incentive (at risk) ↓			 LTI Long Term Incentive (at risk) ↓
Cash				Equity
Base plus superannuation	Reward for in-year performance STI outcome paid in August after the financial year end			Performance Rights subject to performance conditions
Salary based on market and internal relativities, performance, qualifications and experience	STI outcome based on the Group's financial, divisional, and individual performance			Performance is measured over 3 and 4 years
Market competitive remuneration package	Reward and recognition for high performance key talent against determined organisational and individual targets			Alignment with long term shareholder value and strategy to support executive retention

Directors' Report

k) Remuneration Report (continued)

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

Remuneration Governance framework

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

Remuneration principles	Benchmarking	People & Culture Committee	McPherson's Limited Board
<ul style="list-style-type: none"> – Align and contribute to the Company's key strategic business objectives and desired business outcomes – Align executives' remuneration with the interests of shareholders – Assist the Company in attracting executives and retaining the best talent required to execute the business strategy – Support the Company's performance based culture against business plans and shareholder returns – Be fair, equitable and easy to understand 	<ul style="list-style-type: none"> – The People and Culture Committee receives information from remuneration consultants in relation to remuneration market data and analysis for the annual executive fixed remuneration review 	<ul style="list-style-type: none"> – Reviews, evaluates and makes recommendations to the Board in relation to the following remuneration matters: <ul style="list-style-type: none"> ✓ Executive remuneration and incentive policies and schemes ✓ Remuneration framework for Non-Executive Directors ✓ Managing Director and other executives' remuneration packages and performance objectives ✓ Managing Director's performance ✓ Managing Director and other executives' development plans ✓ Recruitment, retention and termination policies and procedures ✓ Superannuation arrangements ✓ Diversity policy and assessing progress against objectives 	<ul style="list-style-type: none"> – Overall responsibility for the remuneration strategy and outcomes for executives and Non-Executive Directors – Reviews and approves recommendations from the People and Culture Committee

The overall level of executive reward considers the performance of the Company over several years, with greater emphasis given to the current year.

Directors' Report

k) Remuneration Report (continued)

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

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

	FY23	FY22	FY21	FY20	FY19
(Loss)/profit after tax for the year from continuing operations (\$'000)	(5,061)	333	(5,371)	6,062	13,721
Profit after tax from continuing operations, excluding material items (\$'000)	4,307	6,963	6,184	16,336	13,721
Basic earnings/(loss) per share (cents) from continuing operations	(3.5)	0.3	(4.4)	5.7	13.0
Basic earnings per share (cents), excluding significant items from continuing operations	3.0	5.3	5.1	15.3	13.0
Dividends per share declared for the relevant financial year (cents)	3.0	5.0	5.0	11.0	12.0
Dividend payout ratio as a percentage of profit / (loss) after tax for the year from continuing operations (%)	n/m ¹	n/m ¹	n/m ¹	194.4	92.5
Dividend payout ratio as a percentage of profit from continuing operations excluding significant items (%)	100.3	96.7	103.8	72.1	92.5
(Decrease) / Increase in period end share price (%)	(41.9)	(40.5)	(60.3)	129.9	(29.3)
(Decrease) / Increase in period end share price (cents)	(0.3)	(0.4)	(1.8)	1.6	(0.5)
Total KMP incentives as percentage of profit / (loss) from continuing operations for the year (%)	—	—	—	11.5	2.7
Total KMP incentives as percentage of profit after tax from continuing operations excluding significant items (%)	—	—	—	4.3	2.7

1. Ratio not considered meaningful.

Directors' Report

k) Remuneration Report (continued)

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

Executive remuneration

The Remuneration Framework for FY23 is summarised in the following table:

Element	Purpose	Performance Metrics	Potential Value
Fixed Remuneration including superannuation and benefits	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.
Short-term performance incentives (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.	Former Managing Director Growth in underlying profit before tax (PBT), together with pre-determined significant role specific objectives.	Former Managing Director Up to 75% of fixed remuneration
		Other senior executives Growth in underlying profit before tax (PBT), together with pre-determined significant role specific objectives.	Other senior executives Up to 50% of fixed remuneration
Long-term incentives (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.	Former Managing Director i. High Level Performance Rights (HLP) – 100% of vesting determined with reference to EPS CAGR, over three years. ii. Exceptional Level Performance Rights (ELP) – Vesting determined with reference to the TSR CAGR outcome over four years.	Former Managing Director i. High Level Performance Rights (HLP) – 100% of fixed remuneration. ii. Exceptional Level Performance Rights (ELP) – 50% of fixed remuneration.
		Other senior executives 66.7% of vesting determined with reference to EPS CAGR and 33.3% with reference to TSR CAGR, each over three years.	Other senior executives 40% of fixed remuneration

Alison Cook received fixed monthly remuneration of \$33,000 inclusive of superannuation for her services as Chief Operating Officer in addition to the remuneration she received for her Non-Executive Director responsibilities.

No additional remuneration was received by Ari Mervis for his services as the Executive Chair.

The graph below shows the structure of the FY23 remuneration opportunity mix for KMP compared to FY22. The LTI is an invested 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.

Former Managing Director

2023	30.8%	23.1%	46.2%
2022	30.8%	23.1%	46.2%

Chief Financial Officer

2023	52.6%	26.3%	21.1%
2022	52.6%	26.3%	21.1%

● Fixed Remuneration ● STI ● LTI

Directors' Report

k) Remuneration Report (continued)

3. Elements of remuneration

Short-term incentives (STI)

Each year the People and Culture Committee considers the appropriate targets and key performance indicators for each of the Senior Leadership Team, together with the appropriate STI payable should targets be met or exceeded.

Assessment	STI financial target	STI non-financial target
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 based on audited results following the end of the financial year to which the incentive relates.	Based on the Company's profit performance in FY23, the People and Culture Committee has determined that the KMPs and other senior executives are not eligible for any STI in relation to the financial targets.	As the Company's performance in FY23 was below the relevant vesting thresholds, the KMP and other senior executives were not eligible for any STI in relation to the non-financial targets.

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. In FY23, no such additional short-term cash bonuses were paid to senior executives.

Specific STI performance metrics and outcomes for each KMP in FY23 are summarised in the table below:

KMP	Metrics	Potential STI outcomes	FY23 Outcomes
Former Managing Director	70% of STI is based on two financial performance metrics: a) 50% of STI is based on underlying profit before tax (PBT) with vesting commencing at the FY22 underlying PBT of \$10.7m, then pro rata to 100% vesting at 20.0% above the budgeted FY23 underlying PBT; and b) 20% of STI will be based on sales revenue with vesting commencing at \$10.0m below budgeted FY23 sales revenue, then pro rata to 100% vesting at \$10m above budgeted FY23 sales revenue.	Financial Pro-rata to target 52.5% of fixed remuneration	Financial Nil
		Non-Financial Up to 22.5% of fixed remuneration ¹	Non-Financial Nil
Chief Financial Officer and Company Secretary	30% will be based on non-financial measures, being pre-determined significant role specific objectives. All the above STI elements are subject to the qualification gate of \$10.7m in underlying PBT.	Financial Pro-rata to target 35% of fixed remuneration	Financial Nil
		Non-Financial Up to 15% of fixed remuneration ¹	Non-Financial Nil

1. Or higher at the discretion of the Board of Directors to recognise the achievement of strategic initiatives

Directors' Report

k) Remuneration Report (continued)

3. Elements 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 securityholder returns. During the current year, the Company 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 49 for further information) are met and the executive is still employed by the Company 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. No individual has a contractual right to receive any guaranteed benefits.
Maximum LTI	<ul style="list-style-type: none"> – Managing Director – 150% of fixed remuneration in the form of HLP and ELP performance rights – 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, whether or not any or all applicable exercise conditions have been satisfied if, in the Board's opinion, one of the following events has occurred or is likely to occur and subject to other than current facts and circumstances:</p> <ul style="list-style-type: none"> – The merger or consolidation of the Company into another entity occurs; – A takeover bid is made in respect of the Company and the Board recommends acceptance to shareholders; – A scheme of arrangement is made or undertaken in respect of the Company, 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 company or all or substantial part of the assets of the Company; or – Any other event as determined by the Board in its absolute discretion.

No LTI vested in FY23 as the relevant EPS and TSR vesting thresholds were not achieved.

Further information regarding share-based compensation in the form of Performance Rights is contained later in the Remuneration Report on page 49.

Voting and comments made at the Company's 2022 Annual General Meeting (AGM)

Of the total votes cast in relation to the adoption of the 2022 remuneration report by shareholders participating in the AGM and by proxy, 88.13% voted in favour of the resolution. Several general questions relating to remuneration and the 2022 remuneration report were asked by shareholders at the 2022 AGM, which were appropriately responded to by the Chair of the Board and other Non-Executive Directors at the meeting.

Directors' Report

k) Remuneration Report (continued)

4. 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.

2023	Short-term Benefits				Post-employment Benefits	Long-term Benefits	Share-based payments		Total \$
	Cash Salary & Fees \$	Cash Bonus \$	Non-monetary Benefits ¹ \$	Termination Benefits ² \$	Super-annuation \$	Leave entitlements \$	Cash-settled \$	Equity-settled \$	
Directors of McPherson's Limited									
A. Mervis (Board Chair)	153,029	—	—	—	16,068	—	—	—	169,097
G.W. Peck (former Managing Director) ³	593,542	—	—	323,750	27,500	(23,811)	(230,180) ⁶	68,250 ⁷	759,051
J.M. McKellar	89,683	—	—	—	9,417	—	—	—	99,100
A.J. Cook	124,267 ⁴	—	—	—	13,048	—	—	—	137,315
G.R. Pearce ⁵	31,411	—	—	—	3,298	—	—	—	34,709
H.L. Thornton	89,683	—	—	—	9,417	—	—	—	99,100
Total Directors' Remuneration 2023	1,081,615	—	—	323,750	78,748	(23,811)	(230,180)	68,250	1,298,372
Other Group Key Management Personnel									
P. Witheridge	378,943	—	—	—	26,400	(540)	—	6,651	411,454
Total Other Key Management Personnel Remuneration 2023	378,943	—	—	—	26,400	(540)	—	6,651	411,454
Total Remuneration 2023 – Group	1,460,558	—	—	323,750	105,148	(24,351)	(230,180)	74,901	1,709,826

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

2. Termination benefits relating to the notice period paid out.

3. Mr. Peck resigned effective 31 May 2023.

4. Includes additional remuneration of \$29,864 for services as Chief Operating Officer in addition to the remuneration received for Non-Executive Director responsibilities.

5. Mr. Pearce resigned on 22 November 2022.

6. Includes \$(183,134) from the fair value revaluation of unvested cash based performance rights (624,000 HLP rights and 312,000 ELP rights) retained upon resignation and \$(47,046) forfeiture of 200,000 commencement rights upon resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 2 June 2023.

7. Includes expense accelerated in respect to share-based performance rights (909,000 HLP rights and 455,000 ELP rights) retained upon resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 2 June 2023.

Directors' Report

k) Remuneration Report (continued)

4. Details of remuneration (continued)

Amounts of remuneration (continued)

	Short-term Benefits				Post-employment Benefits	Long-term Benefits	Share-based payments		Total
	Cash Salary & Fees	Cash Bonus	Non-monetary Benefits ¹	Termination Benefits	Super-annuation	Leave entitlements	Cash-settled	Equity-settled	
2022	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors of McPherson's Limited									
A. Mervis (Board Chair) ²	143,984	—	—	—	14,398	—	—	—	158,382
G.A. Cubbin (former Board Chair) ³	58,091	—	—	—	6,591	—	—	—	64,682
G.W. Peck (Managing Director)	647,500	—	—	—	27,500	42,682	230,180	—	947,862
J.M. McKellar	90,933	—	—	—	9,093	—	—	—	100,026
A.J. Cook	88,693	—	—	—	8,869	—	—	—	97,562
G.R. Pearce	75,730	—	—	—	7,573	—	—	—	83,303
H.L. Thornton ⁴	45,841	—	—	—	4,584	—	—	—	50,425
Total Directors' Remuneration 2022	1,150,772	—	—	—	78,608	42,682	230,180	—	1,502,242
Other Group Key Management Personnel									
P. Witheridge	369,250	—	—	—	26,400	24,177	—	36,617	456,444
L. Pirozzi ⁵	179,598	—	—	236,346	13,750	(32,277)	—	(30,486)	366,931
Total Other Key Management Personnel Remuneration 2022	548,848	—	—	236,346	40,150	(8,100)	—	6,131	823,375
Total Remuneration 2022 – Group	1,699,620	—	—	236,346	118,758	34,582	230,180	6,131	2,325,617

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

2. Mr Mervis was appointed as Deputy Board Chair on 27 April 2021 and Board Chair on 21 July 2021.

3. Mr Cubbin resigned as Board Chair on 21 July 2021 and resigned as a Non-Executive Director on 21 February 2022.

4. Ms Thornton was appointed as a Non-Executive Director on 20 December 2021.

5. Ms Pirozzi resigned on 31 December 2021.

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.

Directors' Report

k) Remuneration Report (continued)

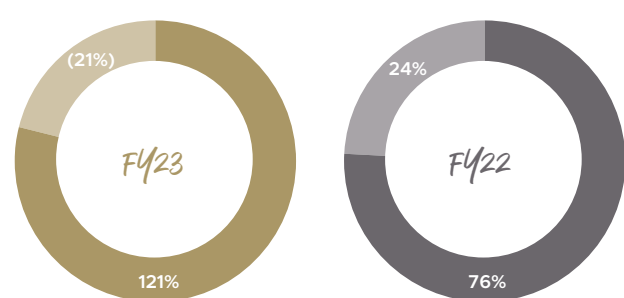
4. Details of remuneration (continued)

Relative proportions of remuneration

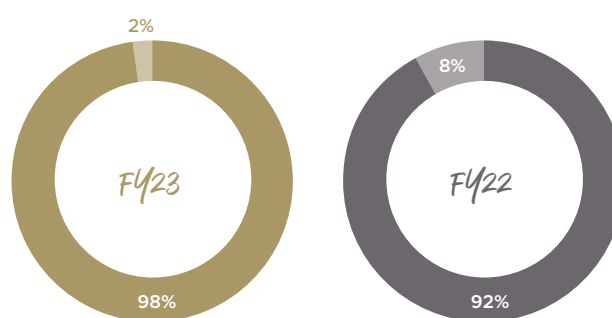
The relative proportions of remuneration that are linked to performance and those that are fixed are set out below.

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 FY23 and FY22, except in relation to the LTI element which is determined in accordance with AASB 2 *Share-based Payment*. There were no STI granted in FY23 and FY22 as disclosed above.

Former Managing Director¹



Chief Financial Officer



● 2023 Fixed Remuneration ● 2023 At risk - LTI ● 2022 Fixed Remuneration ● 2022 At risk - LTI

1. Includes \$(183,134) from the fair value revaluation of unvested cash based performance rights (624,000 HLP rights and 312,000 ELP rights) retained upon resignation, \$(47,046) forfeiture of 200,000 commencement rights terminated upon resignation and \$68,250 expense accelerated in respect to share-based performance rights (909,000 HLP rights and 455,000 ELP rights) retained upon resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 2 June 2023.

Performance based remuneration granted and forfeited during the year

The following table shows for each KMP how much of their FY23 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	506,250	—	100	622,760	—	192,000
Other key management personnel of the Group						
P. Witheridge	204,287	—	100	97,270	—	133,920

1. Mr. Peck resigned on 31 May 2023.

Directors' Report

k) Remuneration Report (continued)

4. Details of remuneration (continued)

Summary of KMP Remuneration and KPI Objectives for FY23

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
G. Peck <i>Former Managing Director</i>	\$675,000 including super	Target cash bonus of up to 75% of fixed remuneration, comprising 35% – 52.5% of fixed remuneration based on a financial metrics and 15% – 22.5% of fixed remuneration based on role specific pre-determined KPI objectives. (Resignation in May 2023)	Rights granted under the Performance Rights Plan equal to 150% of fixed remuneration: i) High Level Performance Rights (HLP) – 100% of fixed remuneration with the maximum opportunity subject to a target EPS CAGR hurdle of at least 20.0% measured over a three year performance period. ii) Exceptional Level Performance Rights (ELP) – 50% of fixed remuneration with the maximum opportunity subject to a target TSR CAGR hurdle of at least 35.0% measured over a four year performance period.	<ul style="list-style-type: none"> – Continue to reposition the Executive Team to provide an environment that drives positive outcomes. – Provide succession clarity and potential. – Drive and take advantage of our unique employee value proposition. – Create the plan and deliver on the broad external reputation opportunity. – Drive efficiency via Health and Beauty alignment and the International target model. – Deliver on the organization clarity and accountability for participants.
P. Witheridge <i>Chief Financial Officer and Company Secretary</i>	\$408,574 including super	Target cash bonus of up to 50% of fixed remuneration, comprising 35% of fixed remuneration based on a financial metrics and 15% of fixed remuneration based on role specific pre-determined KPI objectives.	Rights granted under the Performance Rights Plan equal to 40% of fixed remuneration with: i) 66.7% of the maximum opportunity subject to a target EPS CAGR hurdle of at least 20.0%, measured over a three year performance period; and ii) 33.3% subject to an absolute TSR CAGR hurdle of at least 30.0% per annum, measured on a compound basis over a three year performance period.	<ul style="list-style-type: none"> – Provide stable and consistent leadership and direction to the Finance and IT teams directly, but also more broadly across the MCP team. – Lead refinancing of the Company's term debt facilities due to expire in June 2023. – Promote appropriate expense management across the Company in response to changes in sales levels, thereby protecting profit margins to the extent possible. – Ensure IT development tasks and operations tasks are well prioritised, executed and communicated to the Senior Leadership Team. – Manage the Company's treasury function to ensure that its exposure to \$A/\$US devaluation and increases in interest rate is appropriately protected.

Directors' Report

k) Remuneration Report (continued)

5. Contractual arrangements for executive KMP

Remuneration and other terms of employment for the Managing Director and the CFO 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>Former Managing Director</i>	Resigned on 31 May 2023	\$675,000	Contract may be terminated on 6 months' notice by either the Company or executive. (resigned on 31 May 2023)
P. Witheridge <i>Chief Financial Officer and Company Secretary</i>	Ongoing	\$408,574	Contract may be terminated on 6 months' notice by the Company or on 3 months' notice by the executive.

1. The annual fixed remuneration amount of the Chief Financial Officer quoted is as at 30 June 2023. It is reviewed annually by the People and Culture Committee.

Directors' Report

k) Remuneration Report (continued)

6. Share-based compensation

i) Performance Rights

Each Performance Right carries an entitlement to be issued with one ordinary share in the Company for no consideration, plus additional shares equal in value to the dividends paid by the Company on the underlying shares over the period from the relevant offer date to the exercise date on a reinvested basis, subject to the satisfaction of the vesting conditions, which are based on performance and time related conditions. Unvested Performance Rights carry no dividend or voting rights.

Approval for the issue of LTI Performance Rights to the new Managing Director, Brett Charlton for 2024 will be sought, under ASX Listing Rule 10.14, at the Company's Annual General Meeting in November 2023.

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		
HLP	Former Managing Director	2022 ¹	First 50% of Rights 30% of Rights vesting at +15.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +20.0% of underlying EPS CAGR	3 years		
			Remaining 50% of Rights 30% of Rights vesting at +15.0% TSR CAGR, then pro rata to 100% of Rights vesting at +20.0% TSR CAGR	3 years		
		2023	30% of Rights vesting at +20.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +35.0% of underlying EPS CAGR	3 years		
Performance Rights	Chief Financial Officer (and Company Secretary)	2021	First 50% of Rights Zero Rights vesting at +3.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +8.0% of underlying EPS CAGR	3 years		
			Remaining 50% of Rights 25% of Rights vesting at +8.0% TSR CAGR, then pro rata to 100% of Rights vesting at +13.0% TSR CAGR	3 years		
		2022	First 50% of Rights 30% of Rights vesting at +15.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +20.0% of underlying EPS CAGR	3 years		
			Remaining 50% of Rights 30% of Rights vesting at +15.0% TSR CAGR, then pro rata to 100% of Rights vesting at +20.0% TSR CAGR	3 years		
		2023	First 66.7% of Rights 30% of Rights vesting at +20.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +35.0% of underlying EPS CAGR	3 years		
			Remaining 33.3% of Rights 30% of Rights vesting at +30.0% TSR CAGR, then pro rata to 100% of Rights vesting at +45.0% TSR CAGR	3 years		
		ELP	Former Managing Director	2022 ¹	30% of Rights vesting at +20.0% TSR CAGR, then pro rata to 100% of Rights vesting at +25.0% TSR CAGR	4 years
				2023	30% of Rights vesting at +35.0% TSR CAGR, then pro rata to 100% of Rights vesting at +50.0% TSR CAGR	4 years

1. As announced to the ASX on 17 December 2021, a cash based LTI arrangement will operate for Mr. Peck's Commencement, HLP and ELP rights for FY2022 because of the AGM resolution relating to these rights not being passed at the 2021 AGM. The cash based LTI arrangement adopts the same challenging performance criteria and performance periods over 3 and 4 years as set out in the 2021 AGM Notice of Meeting and are referred to in the HLP and ELP information set out above.

Directors' Report

k) Remuneration Report (continued)

6. Share-based compensation (continued)

i) Performance Rights (continued)

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.

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 33% of other KMP's rights which are assessed on TSR CAGR outcomes, is generally the volume weighted average share price on the ASX for the 20 trading days ending on 30 June immediately prior to when the rights were issued.

Details of LTI awards on issue at 30 June 2023 are set out in the following table:

Name	Date of grant	Financial year in which rights may vest ¹	Number of rights granted	Maximum total value of grant yet to be expensed 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 %	
G. Peck	Commencement	17/11/2021	2025	200,000	—	\$216,560	—	—	200,000	100
	HLP	17/11/2021	2025	624,000	—	\$675,000	—	—	—	—
		22/11/2022	2026	909,000	—	\$675,000	—	—	—	—
	ELP	17/11/2021	2026	312,000	—	\$337,500	—	—	—	—
22/11/2022		2027	455,000	—	\$337,500	—	—	—	—	
P. Witheridge	25/09/2019	2023	72,000	—	\$158,260	—	—	72,000	100	
	25/09/2020	2024	50,000	\$69,063	\$158,260	—	—	—	—	
	24/09/2021	2025	146,000	\$81,334	\$158,260	—	—	—	—	
	23/09/2022	2026	213,000	\$93,119	\$158,260	—	—	—	—	

1. The performance rights granted has an expiry of 5 years from the vesting date.

2. This represents the maximum remaining accounting value of the LTI plan awards as at their grant date. The minimum value of grant is nil.

3. The face value at grant date is calculated using the 20-day VWAP preceding the date of grant.

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

Performance Rights	Fair Value
Commencement Rights, HLP and other EPS CAGR performance rights	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 and other TSR CAGR performance rights	Independently valued at grant date using the assumptions underlying the Monte Carlo 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

Directors' Report

k) Remuneration Report (continued)

6. Share-based compensation (continued)

i) Performance Rights (continued)

The fair value per right of the Performance Rights granted in FY23 were as follows:

Name	Date of grant	Period in which rights may vest ¹	Number of rights granted	Fair value per right ²
G. Peck				
HLP EPS CAGR	22/11/2022	Sep 2025	909,000	\$0.64
ELP TSR CAGR	22/11/2022	Sep 2026	455,000	\$0.15
P. Witheridge				
EPS CAGR	23/09/2022	Sep 2025	142,000	\$0.59
TSR CAGR	23/09/2022	Sep 2025	71,000	\$0.19

1. The performance rights granted has an expiry of 5 years from the vesting date.

2. The fair value per right is calculated in accordance with AASB 2 *Share-based Payment*.

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

The Company'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 any transaction designed to remove any 'at risk' aspect before the instruments vest.

Performance Rights (units) held by KMP

Name	Balance at start of the year	Granted as compensation	Vested and exercised rights	Cancelled	Balance at the end of the year	Vested and exercisable	Unvested
G. Peck¹							
Commencement rights	200,000	—	—	200,000	—	—	—
HLP	624,000	909,000	—	—	1,533,000 ¹	—	—
ELP	312,000	455,000	—	—	767,000 ¹	—	—
P. Witheridge							
Performance Rights	268,000	213,000	—	(72,000)	409,000	—	409,000

1. Balances at the end of the year for Mr. Peck reflect balances at the date he ceased being a KMP on 31 May 2023.

ii) Shares held by key management personnel

Name	Balance at the start of the year	Received during the year on the exercise of performance rights	Other non-remuneration changes during the year	Balance at the end of the period
Directors of McPherson's Limited				
A. Mervis	150,000	—	—	150,000
G.W. Peck ¹	55,400	—	—	55,400 ¹
J.M. McKellar	11,533	—	—	11,533
G.R. Pearce ²	655,939	—	—	655,939 ²
A.J. Cook	15,500	—	—	15,500
H.L. Thornton	—	—	20,000	20,000
Other key management personnel				
P. Witheridge	60,000	—	—	60,000

1. Mr. Peck resigned as Managing Director on 31 May 2023. His share balance at the end of the period refers to shares held on the date of resignation.

2. Mr. Pearce resigned as a Non-Executive Director on 22 November 2022. His share balance at the end of the period refers to shares held on the date of resignation.

Directors' Report

k) Remuneration Report (continued)

7. Non-Executive Directors arrangements

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	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. Including superannuation guarantee contributions made on their behalf by the Company, Non-Executive Director remuneration for the year ended 30 June 2023 totalled \$539,321 (2022: 554,381).
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	Pre-February 2022, the Chairman and other Non-Executive Directors receive additional fees for their membership of the Board's Audit, Risk Management and Compliance Committee. Some adjustments were made to the level of fees paid to the Chair and Members of all board committees following the establishment of the Risk and Compliance Committee in February 2022.
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	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. 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.

The following fees applied for the year ended 30 June 2023 and continue to apply at the date of this report:

	2023	2022
Base fees		
Board Chair	\$158,667	\$158,667
Other Non-Executive Directors	\$83,303	\$83,303
Additional fees		
Audit Committee (Chair)	\$10,582	\$10,582
Audit Committee (Member)	\$5,215	\$5,215
People and Culture Committee (Chair)	\$10,582	\$10,582
People and Culture Committee (Member)	\$5,215	\$5,215
Risk and Compliance Committee (Chair)	\$10,582	\$10,582
Risk and Compliance Committee (Member)	\$5,215	\$5,215

The amounts shown above for 2023 are inclusive of company superannuation guarantee contributions at 10.5%, payable on behalf of Directors on the base fees and additional fees (2022: at 10.0%).

Directors' Report

k) Remuneration Report (continued)

8. Additional information

Loans to Directors and Executives	There were no loans made to Directors of McPherson's Limited or to any KMP of the Company, 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	<p>During the year, the Company 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.</p> <p>There were no transactions between the Company and the Directors of McPherson's Limited or with any KMP of the Company, including their related entities, during the current financial year other than those disclosed above, and relating to remuneration and to transactions concerning performance rights and shares.</p>

l) Shares under option

At the date of this report, there were no unissued ordinary shares of McPherson's under vested performance rights. There were no shares issued from the exercise of vested performance rights or options during the year ended 30 June 2023 and 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 Company is not subject to significant environmental regulation in respect of its operations. The Company is committed to achieving a high standard of environmental performance and the Company 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 Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

Directors' Report

p) Non-audit services

The Company 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 Company 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.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit 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 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:

	2023 \$	2022 \$
Other services		
PricewaterhouseCoopers Australian firm		
Working capital review	—	37,500
Total remuneration for other services	—	37,500
Total remuneration for non-audit services	—	37,500

A copy of the auditor's independence as required under section 307C of the *Corporations Act 2001* is set out on page 55.

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.

Signed in accordance with a resolution of the Directors:



Ari Mervis
Chair

24 August 2023



Helen Thornton
Director

24 August 2023

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2023, 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
24 August 2023

PricewaterhouseCoopers, ABN 52 780 433 757
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Liability limited by a scheme approved under Professional Standards Legislation.

Directors' Declaration

We, Ari Mervis and Helen Thornton, 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 63 to 110 and the remuneration report on pages 35 to 53 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 2023 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 30 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 30.

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 declaration by the 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
Chair

24 August 2023



Helen Thornton
Director

24 August 2023

Independent Auditor's Report



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 2023 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 2023
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income 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.

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.

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Independent Auditor's 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

- For the purpose of our audit we used overall Group materiality of \$525,000, which represents approximately 0.25% of the Group's revenue.
- 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 revenue because in our view, it is a benchmark against which the Group is commonly measured.
- We utilised a 0.25% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

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 Committee.

Independent Auditor's Report



Key audit matter	How our audit addressed the key audit matter
<p>Valuation of goodwill (\$33.7 million) and brand names (\$42.3 million) (Refer to note 15)</p> <p>Goodwill is allocated to the Australia and New Zealand (ANZ) cash generating unit (CGU). The recoverable amount of the ANZ CGU is determined based on a value-in-use calculation. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.</p> <p>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 (VIU) or fair value less costs of disposal (FVLCD) calculations.</p> <p>We considered the carrying value and impairment assessment of goodwill and brand names to be a key audit matter due the following reasons:</p> <ul style="list-style-type: none"> • Significant judgement is applied by the Group in relation to estimating the cash flow forecasts used in determining the recoverable amount for each Cash Generating Unit (CGU); • Given the magnitude of the amounts involved, a possible misstatement of a significant assumption could result in a material impairment or reversal of impairment. 	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Assessed whether the Group's determination of CGUs was consistent with our understanding of the nature of the Group's operations. • Assessed whether the ANZ CGU appropriately included all assets, liabilities and cash flows. • Compared the Group's forecast cash flows in the impairment models to Board approved budgets. • Assessed the Group's historical ability to forecast cash flows by comparing budgets to reported actual results. • Together with PwC valuation experts, assessed the valuation methodology and mathematical accuracy of relevant calculations in the impairment models and compared the discount rates, growth rates and royalty rates to historical company data and market observable inputs. • Assessed the reasonableness of the disclosures made in the financial report, in light of the requirements of Australian Accounting Standards.
<p>Inventory valuation (\$45.2 million) (Refer to note 10)</p> <p>The Group has gross inventories of \$52.6 million and an inventory provision of \$7.4 million.</p> <p>The Group values inventory at the lower of cost and net realisable value and estimates are required to determine the recoverable amount. These estimates are based on the Group's projections of future sales volumes and prices.</p> <p>This was a key audit matter given the level of judgement involved in calculating the provision for inventory and the magnitude of inventory recognised on the Group's consolidated balance sheet.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Assessed the Company's accounting policy for valuing inventory at the lower of cost and net realisable value, by reference to Australian Accounting Standards. • Developed an understanding of the control activities relevant to our audit of inventory and assessed whether they were appropriately designed and implemented. • Tested the mathematical accuracy of the inventory provision calculation. • Assessed the inventory provision estimate, in particular the identification and valuation of inventory considered to be at risk of requiring a provision. For a sample of inventory we:

Independent Auditor's Report



Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> ○ compared inventory on hand to forecast sales; ○ compared forecast sales to actual sales; and ○ tested a sample of items sold and compared the sales price, adjusted for costs to sell, to the cost. <ul style="list-style-type: none"> • Assessed the reasonableness of the disclosures made in the financial report, in light of the requirements of Australian Accounting Standards.
<p>Carrying value of other assets (\$ 8.6 million) <i>(Refer to note 12)</i></p> <p>The carrying value of the Preferred Brand Agreement (PBA) and Exclusive Distribution Agreement (EDA) was a key audit matter due to the:</p> <ul style="list-style-type: none"> • Magnitude of the balance; • Significant judgement applied by the Group in estimating the cash flow forecasts used in determining the recoverable amount; and • The judgement involved in determining the useful life over which the assets are amortised and the method of amortisation. 	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Tested the value allocation between the PBA and EDA by comparing the initial cash flow forecasts for each contract. • Assessed the Group's impairment assessment by comparing the recoverable amount for the PBA and EDA to the carrying value at 30 June 2023. • Together with our accounting specialists, assessed the amortisation methodology used by the Group by comparing the useful life applied to the terms of the contracts and tested the resulting calculations for mathematical accuracy. • Compared the Group's forecast cash flows to Board approved budgets and actual results. • Assessed the expected term and exercise of extension options of individual brands under the EDA, based on forecast sales. • Together with PwC valuation experts, assessed the EDA valuation methodology and mathematical accuracy of the impairment model and compared the discount rate to historical company data and market observable inputs. • Assessed the reasonableness of the disclosures made in the financial report, 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 2023, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Independent Auditor's Report



Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon through our opinion on the financial report. We have issued a separate opinion on the remuneration report.

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

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

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

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 35 to 53 of the directors' report for the year ended 30 June 2023.

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

Independent Auditor's Report



Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

P.J. Carney

Paddy Carney
Partner

Sydney
24 August 2023

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Revenue			
Sales revenue		210,261	214,003
Other income		60	157
Total revenue and other income		210,321	214,160
Expenses			
Materials and consumables		(107,189)	(123,203)
Employee costs		(38,911)	(39,102)
Advertising and promotions		(25,113)	(22,355)
Cartage and freight		(7,136)	(6,823)
Third party warehousing		(2,483)	(2,026)
Rental expenses		(408)	(502)
Depreciation		(5,510)	(5,110)
Amortisation		(475)	(564)
Other expenses		(14,544)	(13,443)
Net favourable impact from the exit of the joint ventures	3	—	707
Impairment of intangible assets	15	(11,462)	—
Operating (loss) / profit before finance costs and income tax		(2,910)	1,739
Interest income	18	24	31
Borrowing costs	18	(1,786)	(1,175)
Net finance costs		(1,762)	(1,144)
Share of net loss of joint ventures accounted for using the equity method		—	(159)
(Loss) / profit before income tax		(4,672)	436
Income tax expense	6	(389)	(103)
(Loss) / profit for the year after tax		(5,061)	333
(Loss) / profit for the year		(5,061)	333
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges	22	(1,621)	2,410
Exchange differences on translation of foreign operations	22	490	60
Income tax benefit relating to these items	22	469	(716)
Other comprehensive (expense) / income for the year		(662)	1,754
Total comprehensive (expense) / income for the year		(5,723)	2,087
Earnings per share			
		Cents	Cents¹
Basic (loss) / earnings per share	27	(3.5)	0.3
Diluted (loss) / earnings per share	27	(3.5)	0.3

1. Refer to note 27 for details of prior period immaterial restatement

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

Consolidated Balance Sheet

as at 30 June 2023

	Note	2023 \$'000	2022 \$'000
Current assets			
Cash and cash equivalents	8	7,031	13,139
Trade and other receivables	9	28,893	29,759
Inventories	10	45,159	45,542
Derivative financial instruments	11	607	2,077
Current tax asset		—	1,398
Other assets ¹	12	992	779
Total current assets		82,682	92,694
Non-current assets			
Property, plant and equipment	13	6,675	6,544
Right-of-use assets	14	11,438	13,138
Intangible assets	15	78,814	90,464
Deferred tax assets	16	—	278
Other assets ¹	12	7,588	8,916
Total non-current assets		104,515	119,340
Total assets		187,197	212,034
Current liabilities			
Trade and other payables	17	33,247	43,030
Borrowings	18	927	14,887
Lease liabilities		3,736	3,571
Provisions	19	7,081	7,397
Derivative financial instruments	11	866	674
Current tax liabilities		1,369	66
Total current liabilities		47,226	69,625
Non-current liabilities			
Other payables	17	706	435
Borrowings	18	12,592	—
Lease liabilities		8,194	9,971
Provisions	19	1,549	1,925
Deferred tax liabilities	20	7,478	9,272
Total non-current liabilities		30,519	21,603
Total liabilities		77,745	91,228
Net assets		109,452	120,806
Equity			
Contributed equity	21	217,218	207,244
Reserves	22(a)	(1,966)	8,543
Accumulated losses	22(b)	(105,800)	(94,981)
Total equity		109,452	120,806

1. Refer to note 1(b) for details of prior period immaterial restatement

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2023

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 30 June 2022		207,244	8,543	(94,981)	120,806
Loss for the year		—	—	(5,061)	(5,061)
Other comprehensive income		—	(662)	—	(662)
Total comprehensive income		—	(662)	(5,061)	(5,723)
Transactions with shareholders					
Dividends provided for or paid	4	—	—	(5,758)	(5,758)
Shares vested and transferred to employees	22	231	(231)	—	—
Share-based payment transactions with employees		—	127	—	127
Shares issued for Contract Assets and prepayment for inventory	22	9,743	(9,743)	—	—
Total transactions with shareholders		9,974	(9,847)	(5,758)	(5,631)
Balance at 30 June 2023		217,218	(1,966)	(105,800)	109,452
Transactions with shareholders					
Dividends provided for or paid	4	—	—	(5,789)	(5,789)
Shares vested and transferred to employees	22	881	(881)	—	—
Share-based payment transactions with employees		—	141	—	141
Share-based payment transactions for contract Assets and prepayment for inventory		—	9,743	—	9,743
Transfer of performance rights cancelled to retained earnings	22	—	(1,411)	1,411	—
Total transactions with shareholders		881	7,592	(4,378)	4,095
Balance at 30 June 2022		207,244	8,543	(94,981)	120,806

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Receipts from customers, inclusive of GST		233,421	242,238
Payments to suppliers and employees, inclusive of GST		(226,583)	(223,056)
Interest received		24	31
Interest and borrowing costs paid		(1,600)	(779)
Income taxes received		1,286	141
Net cash inflows from operating activities	31	6,548	18,575
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(1,788)	(1,924)
Payments for purchase of other intangible assets		(61)	(331)
Net cash (outflows) from investing activities		(1,849)	(2,255)
Cash flows from financing activities			
Share issue transaction costs	21	(2)	(3)
Proceeds from borrowings		47,633	46,616
Repayment of borrowings		(49,000)	(47,500)
Repayment of lease liabilities		(3,783)	(3,918)
Dividends paid		(5,758)	(5,789)
Net cash (outflows) from financing activities		(10,910)	(10,594)
Net (decrease) / increase in cash held		(6,211)	5,726
Cash at beginning of financial year		13,139	7,354
Effects of exchange rate changes		103	59
Cash held at end of financial year	8	7,031	13,139

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

Notes to and forming part of the Consolidated Financial Statements

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 standards and interpretations not yet adopted by the Group

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 30 June 2023 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

b) Restatement of prior year

In the June 2022 financial statements, management allocated the valuation of contract assets and inventory prepayments based on the share based consideration issued as part of the strategic alliance with Chemist Warehouse Group.

The allocation of valuation involved critical accounting estimates and assumptions including estimates of future cash flows, assumptions relating to the exercise of extension options and assessing relevant discount rates. As part of the assessment of the asset rate of amortisation and useful life for 31 December 2022, management has noted an error in the assumptions for allocation of valuation for the contract assets and inventory prepayment and made an immaterial restatement to the 30 June 2022 balances as follows:

	30 June 2022 \$'000	Increase / (Decrease) \$'000	Restated 30 June 2022 \$'000
Current assets			
Preferred Brand Alliance	489	236	725
Exclusive Distribution Agreement	361	(307)	54
Total Other assets	850	(71)	779
Non-current assets			
Preferred Brand Alliance	1,899	1,651	3,550
Exclusive Distribution Agreement	6,946	(1,580)	5,366
Total Other assets	8,845	71	8,916

Notes to and forming part of the Consolidated Financial Statements

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.

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.

Notes to and forming part of the Consolidated Financial Statements

1. Summary of significant accounting policies (continued)

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.

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.

Notes to and forming part of the Consolidated Financial Statements

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 5 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. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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.

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.

Notes to and forming part of the Consolidated Financial Statements

1. Summary of significant accounting policies (continued)

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.

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.

Notes to and forming part of the Consolidated Financial Statements

1. Summary of significant accounting policies (continued)

o) Investments and other financial assets (continued)

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.

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.

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.

Notes to and forming part of the Consolidated Financial Statements

1. Summary of significant accounting policies (continued)

p) Derivatives and hedging activities (continued)

Cash flow hedges that qualify for hedge accounting (continued)

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.

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.

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 the historical customer attrition rate, which is subject to annual review.

iv) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that are identifiable and unique software products controlled by the Group and will contribute to future period financial benefits through revenue generation or cost reduction are capitalised as intangible assets. 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 (iv) 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.

Notes to and forming part of the Consolidated Financial Statements

1. Summary of significant accounting policies (continued)

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.

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.

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.

Notes to and forming part of the Consolidated Financial Statements

1. Summary of significant accounting policies (continued)

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 27).

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 27).

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.

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 33 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

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

ac) Critical accounting estimates and assumptions

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

Estimated recoverable amount of goodwill and 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 inventory 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.

Amortisation method and period for contract asset and inventory prepayment

The Preferred Brand Agreement contract asset is amortised to the income statement over the five-year term of the agreement corresponding to the run rate of sales benefitting from the agreement. The Exclusive Distribution Agreement inventory prepayment is amortised over the 20 years on a straight line basis.

The periods for the contract asset and inventory prepayment have been determined by estimating the projected future sales, purchases and margins over the life of the agreements. The judgements involved include estimates of future cash flows, assumptions regarding the exercise of extension options and assessing relevant discount rates. In particular, the estimate assumes that the requisite performance thresholds will be met for the Exclusive Distribution Agreement to be renewed on a brand-by-brand basis for each of the three additional five-year terms from 1 July 2027.

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.

Notes to and forming part of the Consolidated Financial Statements

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	2023 \$'000	2022 \$'000
Financial assets			
Cash and cash equivalents	8	7,031	13,139
Trade and other receivables	9	28,893	29,759
Derivative financial instruments	11	607	2,077
Total financial assets		36,531	44,975
Financial liabilities			
Trade and other payables	17	33,953	43,465
Borrowings	18	13,519	14,887
Lease liabilities		11,930	13,542
Derivative financial instruments	11	866	674
Total financial liabilities		60,268	72,568

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

Notes to and forming part of the Consolidated Financial Statements

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% (2022: 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 2023 was 0.6597 (2022: 0.7109).

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	NZD	EUR	GBP	HKD	AUD	CNY
30 June 2023							
Trade receivables	111	2	40	—	—	—	—
Trade payables	2	6	365	482	211	170	—
Forward foreign exchange contracts - buy foreign currency	29,357	—	—	—	—	—	—
Foreign currency options - buy foreign currency	31,654	—	—	—	—	—	—
30 June 2022							
Trade receivables	53	—	25	—	—	8	—
Trade payables	2	33	130	168	349	6	420
Forward foreign exchange contracts - buy foreign currency	30,606	—	—	—	—	—	—
Foreign currency options - buy foreign currency	29,887	—	—	—	—	—	—

Group sensitivity

Based on the financial instruments held at 30 June 2023, 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 \$1,209,708 higher / \$(870,498) lower (2022: \$1,302,588 higher / \$(952,534) 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.

At 30 June 2023, the Group's debt at variable rates are:

	Weighted average interest rate	Balance \$'000	% of total loans
2023			
Bank loans at variable rate	6.4%	13,000	93%
Interest rate swaps (notional principal amount)	—	—	—
Net exposure to cash flow interest rate risk		13,000	
2022			
Bank loans at variable rate	2.2%	15,000	100%
Interest rate swaps (notional principal amount)	1.4%	(15,000)	—
Net exposure to cash flow interest rate risk		—	

Notes to and forming part of the Consolidated Financial Statements

2. Financial risk management (continued)

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, available credit insurance limits, 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 2023 is determined as follows. The expected credit losses below also incorporate forward looking information.

2023 \$'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	23,322	942	58	42	5	9	24,378
Loss allowance provision	—	—	—	—	—	8	8
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	88.9%	0.0%

Credit risk concentration

Five (2022: five) external customers, which individually amount to 10% or more of the Group's closing receivables, represent \$18,207,087 (2022: \$18,438,478). These debtor balances are in relation to the ANZ CBUs.

Notes to and forming part of the Consolidated Financial Statements

2. Financial risk management (continued)

d) Liquidity risk

	2023 \$'000	2022 \$'000
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	—	35,000
Bank loans expiring beyond one year	37,000	—
Total undrawn borrowing facilities	37,000	35,000

Refer to Note 18 for further information regarding the financing facilities available to the Group.

Maturity profile of the Group's borrowings

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

	Less than 1 Year \$'000	Between 1 & 2 Years \$'000	Between 2 & 3 years \$'000	Between 4 & 6 years \$'000	Total Contractual Cash Flows \$'000	Carrying Amount \$'000
30 June 2023						
Non-derivatives						
Payables	33,247	—	706	—	33,953	33,953
Borrowings	1,755	13,828	—	—	15,583	13,519
Lease liabilities	3,736	3,212	2,617	2,716	12,281	11,930
Total non-derivative financial liabilities	38,738	17,040	3,323	2,716	61,817	59,402
Derivatives						
Forward foreign exchange contracts – inflow	(29,323)	—	—	—	(29,323)	(29,323)
Forward foreign exchange contracts – outflow	28,716	—	—	—	28,716	28,716
	(607)	—	—	—	(607)	(607)
Foreign currency options	866	—	—	—	866	866
Total derivative financial liabilities / (assets)	259	—	—	—	259	259
30 June 2022						
Non-derivatives						
Payables	43,030	—	435	—	43,465	43,465
Borrowings	15,323	—	—	—	15,323	14,887
Lease liabilities	3,583	2,958	2,601	5,111	14,253	13,542
Total non-derivative financial liabilities	61,936	2,958	3,036	5,111	73,041	71,894
Derivatives						
Forward foreign exchange contracts – inflow	(30,626)	—	—	—	(30,626)	(30,626)
Forward foreign exchange contracts – outflow	28,913	—	—	—	28,913	28,913
	(1,713)	—	—	—	(1,713)	(1,713)
Foreign currency options	674	—	—	—	674	674
Interest rate contracts	(364)	—	—	—	(364)	(364)
Total derivative financial liabilities	(1,403)	—	—	—	(1,403)	(1,403)

Notes to and forming part of the Consolidated Financial Statements

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 2023 and 30 June 2022 on a recurring basis:

Recurring fair value measurements	30 June 2023				30 June 2022			
	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	—	607	—	607	—	2,077	—	2,077
Total financial assets at fair value	—	607	—	607	—	2,077	—	2,077

Recurring fair value measurements	30 June 2023				30 June 2022			
	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	—	(866)	—	(866)	—	(674)	—	(674)
Total financial liabilities at fair value	—	(866)	—	(866)	—	(674)	—	(674)

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 2023.

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.

Notes to and forming part of the Consolidated Financial Statements

3. Material Items

The Group's profit / (loss) after income tax includes the following items that are material because of their nature or size:

30 June 2023	Expense / (Income) \$'000	Tax (benefit) / expense \$'000	Total \$'000
Write-back of Dr. LeWinn's inventory provision ¹	(1,036)	311	(725)
Net inventory provision expense	899	(270)	629
Total release from inventory provision	(137)	41	(96)
Multix brand impairment ¹	8,300	(2,490)	5,810
Other brand impairment and asset write down ¹	3,422	(60)	3,362
Leadership transition expenses ¹	484	(148)	336
Professional fees in relation to ASIC matters ¹	411	(123)	288
Restructuring expenses ¹	380	(83)	297
Total material items	12,860	(2,863)	9,997
Material items adjusted in the assessment of underlying performance	11,961	(2,593)	9,368

30 June 2022	Expense / (Income) \$'000	Tax (benefit) / expense \$'000	Total \$'000
Dr. LeWinn's inventory provision ¹	9,434	(2,831)	6,603
Net inventory provision expense	1,563	(468)	1,095
Total inventory provision	10,997	(3,299)	7,698
Net favourable impact from the exit of the joint ventures ¹	(707)	(242)	(949)
Professional fees in relation to ASIC matters ¹	358	(107)	251
Chemist Warehouse Strategic Alliance establishment expenses ¹	566	(170)	396
Restructuring expenses ¹	577	(248)	329
Total material items	11,791	(4,066)	7,725
Material items adjusted in the assessment of underlying performance	10,228	(3,598)	6,630

Notes to and forming part of the Consolidated Financial Statements

4. Dividends

Details of dividends declared during the year ended 30 June 2023 are as follows:

	2023 \$'000	2022 \$'000
Final 30 June 2022 dividend of 2.0 cents per fully paid share (2021: 1.5 cents per fully paid share) fully franked at 30%	2,879	1,930
Interim 2023 ordinary dividend of 2.0 cents per fully paid share (2022: 3.0 cents per fully paid share) fully franked at 30%	2,879	3,859
Total dividends	5,758	5,789
Dividends not recognised at year end		
Since the 2023 financial year end, the Directors have declared a fully franked final dividend of 1.0 cents per fully paid share (2022: 2.0 cents per fully paid share). The aggregate amount of the dividend to be paid on 22 September 2023 but not recognised as a liability at year end.	1,439	2,873
Franked Dividends		
Franked dividends paid after 30 June 2023 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2023.		
Franking credits available for subsequent financial years based on a tax rate of 30%	18,212	19,266

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

In the prior financial year, segment information reported to the Group's Chief Operating Decision Maker (CEO and Managing Director) was presented for the three operating segments:

- Australia and New Zealand (ANZ) CBU;
- Health CBU; and
- International CBU.

The integration of the Health CBU into the larger ANZ CBU was completed during the half year ended 31 December 2022, with cost efficiencies achieved through the combination of the selling, distribution and administration functions of these previously separate operations. Thereafter, the Group's financial information reported to the CEO and Managing Director to undertake performance assessment and make decisions on resource allocation was presented in two CBUs:

- Australia and New Zealand (ANZ) CBU; and
- International CBU.

Therefore management determined that the operating and reportable segments under AASB 8 are (i) ANZ, and (ii) International. The comparatives have been restated accordingly.

Segment revenues

Segment revenues are allocated based on the location in which the customer is located. Sales between segments are eliminated on consolidation.

Revenues of approximately \$112,777,739 (2022: \$107,206,645) were derived from three (2022: three) external customers, which individually amount to 10% or more of the Group's revenue. These revenues were attributable to the Australia and New Zealand segment.

Notes to and forming part of the Consolidated Financial Statements

5. Segment Information (continued)

Segment results

	Australia and New Zealand \$'000	International \$'000	Corporate \$'000	Consolidated \$'000
30 June 2023				
Sales to external customers	200,927	9,334	—	210,261
Inter-segment sales	716	—	(716)	—
Total sales revenue	201,643	9,334	(716)	210,261
Other income	35	21	4	60
Total segment revenue and other income (excluding interest)	201,678	9,355	(712)	210,321
EBITDA / (LBITDA) before material items	20,463	(1,273)	(4,154)	15,036
Depreciation and amortisation expense	(5,410)	(237)	(338)	(5,985)
Segment EBIT / (LBIT) before material items	15,053	(1,510)	(4,492)	9,051
Material items before tax and borrowing costs	(10,894)	(62)	(1,005)	(11,961)
Segment EBIT / (LBIT) including material items	4,159	(1,572)	(5,497)	(2,910)
Net finance costs				(1,762)
Loss before income tax				(4,672)
Income tax expense				(389)
Loss after income tax				(5,061)
30 June 2022				
Sales to external customers	206,083	7,920	—	214,003
Inter-segment sales	787	—	(787)	—
Total sales revenue	206,870	7,920	(787)	214,003
Other income	94	63	—	157
Total segment revenue and other income (excluding interest)	206,964	7,983	(787)	214,160
EBITDA before material items	24,543	(2,282)	(4,779)	17,482
Depreciation and amortisation expense	(5,041)	(295)	(338)	(5,674)
Segment EBIT / (LBIT) before material items	19,502	(2,577)	(5,117)	11,808
Material items before tax and borrowing costs	(577)	(9,435)	(216)	(10,228)
Segment EBIT / (LBIT) including material items	18,925	(12,012)	(5,333)	1,580
Net finance costs				(1,144)
Profit before income tax				436
Income tax expense				(103)
Profit after income tax				333

Assets are reported on a consolidated level to the Group's Chief Operating Decision Maker.

Notes to and forming part of the Consolidated Financial Statements

6. Income tax

a) Income tax expense

	Note	2023 \$'000	2022 \$'000
Current tax		1,796	(24)
Deferred tax		(1,730)	169
Under / (over) provision in prior years		323	(42)
Total income tax expense		389	103
<i>Deferred income tax (credit) / expense included in income tax expense comprises:</i>			
Decrease in deferred tax assets	16	919	210
Increase in deferred tax liabilities	20	(2,649)	(41)
Total deferred tax		(1,730)	169

b) Numerical reconciliation of income tax expense

		2023 \$'000	2022 \$'000
Total operating (loss) / profit before tax		(4,672)	436
Prima facie income tax (benefit) / expense at 30%		(1,402)	131
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:			
Tax rate differences in overseas entities		(170)	(58)
Share-based payments (write back) / expense		(40)	40
Under / (over) provision in prior periods		323	(42)
Impairment of intangible assets		949	—
Net favourable impact of joint venture exit		—	(352)
Share of loss from investments in joint ventures		—	48
Amortisation of contract asset and inventory prepayment		335	—
Other		394	336
Income tax expense		389	103

c) Tax expense relating to items of other comprehensive income

	Note	2023 \$'000	2022 \$'000
Cash flow hedges	16,22	469	(716)

Notes to and forming part of the Consolidated Financial Statements

7. Key management personnel

	2023 \$	2022 \$
Key management personnel compensation		
Short-term employee benefits	1,460,558	1,699,620
Termination benefits	323,750	236,346
Post-employment benefits	105,148	118,758
Long-term benefits	(24,351)	34,582
Share based payments ¹	(155,279)	236,311
Total key management personnel compensation	1,709,826	2,325,617

1. FY23 includes \$(183,134) from the fair value revaluation of invested cash based performance rights (624,000 HLP rights and 312,000 ELP rights) retained upon resignation, \$(47,046) forfeiture of 200,000 commencement rights upon resignation and \$68,250 expense accelerated in respect to share-based performance rights (909,000 HLP rights and 455,000 ELP rights) retained upon resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 2 June 2023.

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 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.

8. Cash and cash equivalents

	2023 \$'000	2022 \$'000
Cash on hand	4	4
Cash at bank and on deposit (at call)	7,027	13,135
Total cash and cash equivalents	7,031	13,139

Notes to and forming part of the Consolidated Financial Statements

9. Trade and other receivables

	2023 \$'000	2022 \$'000
Trade receivables	24,378	25,335
Provision for impairment	(8)	—
Trade receivables, net of impairment	24,370	25,335
Other receivables and prepayments	4,523	4,424
Total trade and other receivables	28,893	29,759

Movements in the provision for impairment of trade receivables	2023 \$'000	2022 \$'000
Balance at 1 July	—	(8)
(Provisions) / reversal for impairment	(8)	7
Net receivables written off as uncollectible	—	1
Foreign exchange	—	—
Total provision for impairment	(8)	—

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.

	2023 \$'000	2022 \$'000
Neither past due nor impaired	23,322	15,359
Past due, but not impaired:		
– Less than 30 days	942	9,760
– 30 to 59 days	58	146
– 60 to 89 days	42	36
– 90 to 119 days	5	19
– 120 days or more	9	15
Gross carrying amount	24,378	25,335
Provision for impairment	(8)	—
Net carrying amount	24,370	25,335

Credit risk concentration

Five (2022: five) external customers represent \$18,207,087 (2022: \$18,438,478), which individually amount to 10% or more of the Group's trade receivables. These trade receivables are in relation to the ANZ CBUs.

Notes to and forming part of the Consolidated Financial Statements

10. Inventories

	2023 \$'000	2022 \$'000
Raw materials	4,193	5,343
Finished goods	48,409	54,227
Total inventories	52,602	59,570
Provision for inventory obsolescence	(7,443)	(14,028)
Total inventories, net of obsolescence provision	45,159	45,542

The decrease in the carrying value of the inventory provision is mainly due to \$5.5 million utilisation for Dr.LeWinn's and \$0.8 million for Akin.

11. Derivative financial instruments

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

	2023 \$'000	2022 \$'000
Current derivative financial instrument assets		
Forward foreign exchange contracts – cash flow hedges	607	1,713
Interest rate contracts – cash flow hedges	—	364
Total current derivative financial instrument assets	607	2,077
Current derivative financial instrument liabilities		
Foreign currency options – cash flow hedges	866	674
Total current derivative financial instrument liabilities	866	674

Derivative financial instruments used by the Group

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

Forward foreign exchange contracts – cash flow hedges

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

Foreign currency options – cash flow hedges

The Group has also entered into foreign currency option contracts to partially hedge a portion of anticipated USD purchases. At balance date, the outstanding foreign currency option contracts cover the period from July 2023 to June 2024.

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.

Notes to and forming part of the Consolidated Financial Statements

12. Other assets

	2023 \$'000	Restated ¹ 2022 \$'000
Preferred Brand Agreement (PBA) – current	721	725
Preferred Brand Agreement (PBA) – non-current	2,970	3,550
Total contract asset	3,691	4,275
Exclusive Distribution Agreement (EDA) – current	271	54
Exclusive Distribution Agreement (EDA) – non-current	4,618	5,366
Total inventory prepayment	4,889	5,420

1. Refer to note 1(b) for details of prior period immaterial restatement.

The EDA contract asset has an initial five-year term commencing 1 July 2022, with an additional three five-year options to extend the arrangements exercisable by McPherson's, subject to minimum performance thresholds on a brand-by-brand basis. Following changes to the assumptions used to assess the EDA asset for impairment, a write down of \$260,000 on the EDA contract asset has been recognised in the second half of FY23. The key assumptions used in assessing the recoverability of the EDA asset are the sales growth rates, the discount rate and the 20-year term.

The assessment of recoverability is impacted by McPherson's ability to meet the performance thresholds and therefore exercise extension options in the agreement. Based on the current sales projections, management has determined it is reasonably certain that the performance thresholds in relation to the majority of brands will be met, and the extension options will be exercised in relation to these brands. Therefore, the asset is being amortised over the 20-year term of the agreement on a straight line basis as an increase in cost of goods sold and the recoverability assessment forecasts cash flows over the 20 year term.

The PBA contract asset is being amortised to the income statement over the initial five-year term of the agreement as a decrease in revenue corresponding to the run rate of sales benefitting from the agreement. While three five-year options exist to renew the PBA, these options are exercisable at Chemist Warehouse's discretion, consequently this asset is being amortised over the initial five-year term. The key assumptions used in assessing the recoverability of the PBA asset are the sales growth rates and the discount rate.

Impact of reasonably possible changes in key assumptions

If the projected sales by brand were 30.0% below the current estimate, this would result in the performance thresholds for some of the brands not being achieved and an asset write down of \$2.6 million for the EDA and no write down would arise for PBA.

If the discount rate is 100 basis points above the current estimate of 14%, an additional asset write down of \$0.3 million would arise for the EDA. If the discount rate is 100 basis points above the current estimate of 12%, no write down would arise for the PBA.

If the EDA for each brand was not extended beyond 5 years, an additional asset write down of \$3.6m would arise.

Notes to and forming part of the Consolidated Financial Statements

13. Property, plant and equipment

	2023 \$'000	2022 \$'000
Leasehold improvements		
At cost	292	332
Accumulated depreciation	(278)	(322)
Total leasehold improvements	14	10
Plant and equipment		
At cost	41,943	40,609
Accumulated depreciation	(35,282)	(34,075)
Total plant and equipment	6,661	6,534
Total property, plant and equipment	6,675	6,544

a) Reconciliations

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Carrying amount at 30 June 2021	14	6,425	6,439
Additions	—	1,924	1,924
Depreciation expense	(4)	(1,774)	(1,778)
Foreign currency exchange differences	—	(41)	(41)
Carrying amount at 30 June 2022	10	6,534	6,544
Additions	8	1,780	1,788
Disposals	—	(18)	(18)
Depreciation expense	(4)	(1,653)	(1,657)
Foreign currency exchange differences	—	18	18
Carrying amount at 30 June 2023	14	6,661	6,675

b) Non-current assets pledged as security

Refer to Note 18 for information on non-current assets pledged as security by the parent entity and certain controlled entities.

14. Leases

a) Right-of-use assets

	2023 \$'000	2022 \$'000
Buildings	9,378	11,107
Equipment and Vehicles	2,060	2,031
Total right-of-use assets	11,438	13,138

Additions to right-of-use assets in 2023 were \$2,169,454 (2022: \$12,601,481).

b) Amounts recognised in the statement of comprehensive income

	2023 \$'000	2022 \$'000
Depreciation charge of right-of-use assets		
Buildings	(2,672)	(2,675)
Equipment and Vehicles	(1,181)	(657)
Total depreciation charge of right-of-use assets	(3,853)	(3,332)
Expenses relating to short-term and low value leases (included in Rental Expense)	(408)	(502)
Interest expense (included in Borrowing Costs)	(261)	(274)
Cash outflow for leases including lease interests	(4,044)	(3,918)

Notes to and forming part of the Consolidated Financial Statements

15. Intangible assets

	Goodwill \$'000	Brand Names \$'000	Customer Relationships \$'000	Other Intangibles \$'000	Total \$'000
At 30 June 2023					
Cost	33,729	53,843	2,700	9,213	99,485
Accumulated amortisation and impairment	—	(11,505)	(873)	(8,293)	(20,671)
Net book amount	33,729	42,338	1,827	920	78,814
At 30 June 2022					
Cost	33,641	53,843	2,700	8,946	99,130
Accumulated amortisation and impairment	—	—	(535)	(8,131)	(8,666)
Net book amount	33,641	53,843	2,165	815	90,464

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 30 June 2021	33,566	53,713	2,503	286	90,068
Additions	—	130	—	721	851
Amortisation charge	—	—	(338)	(226)	(564)
Foreign currency exchange differences	75	—	—	34	109
Carrying amount at 30 June 2022	33,641	53,843	2,165	815	90,464
Additions	—	—	—	268	268
Amortisation charge	—	—	(338)	(137)	(475)
Impairment charge	—	(11,462)	—	—	(11,462)
Contingent consideration adjustment	—	(43)	—	(38)	(81)
Foreign currency exchange differences	88	—	—	12	100
Carrying amount at 30 June 2023	33,729	42,338	1,827	920	78,814

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.

Notes to and forming part of the Consolidated Financial Statements

15. Intangible assets (continued)

Impairment Testing

Goodwill

In the prior financial year, the Group's goodwill was allocated to two groups of cash generating units (CGUs) being the Australia and New Zealand (ANZ) CGU and Health CGU.

The integration of the Health CBU into the larger ANZ CBU which was completed during the half year ended 31 December 2022, achieved cost efficiencies through the combination of the selling, distribution and administration functions of these previously separate operations.

The Health and ANZ business integration resulted in the cash inflows of the ANZ and Health CGUs being no longer independent given the expansion of health products into the ANZ customer base and the integration of the selling and distribution operations. Goodwill is now monitored at the ANZ level. In accordance with AASB 136 Impairment of Assets, the Group has combined the goodwill from the Health CGU with the Australia and New Zealand (ANZ) CGU.

Management performed an impairment assessment of goodwill in the two separate CGUs prior to the date of integration and noted no impairment. A key assumption for the impairment assessment on Health CGU prior to the date of integration was the growth rate for Fusion Health as disclosed in the brand names assumptions below.

Goodwill by CBU:	2023 \$'000	2022 \$'000
Australia and New Zealand (ANZ)	33,729	15,754
Health	—	17,887
Total Goodwill	33,729	33,641

The recoverable amount of a CGU is determined based on a value-in-use calculation. The value-in-use calculation includes cash flow projections based on the latest Board approved 2024 forecast. Cash flows from financial year 2024 are extrapolated using estimated growth rates from the Board approved Group five-year plan. 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 CGUs are set out below:

CGUs	30 June 2023			30 June 2022		
	5-year EBIT Growth Rates	Terminal Growth Rate	Pre-Tax Discount Rate	5-year EBIT Growth Rates	Terminal Growth Rate	Pre-Tax Discount Rate
ANZ	10.8% – 61.2%	2.5%	16.9%	1.4% – 34.5%	2.5%	16.2%
Health	n/a	n/a	n/a	11.8% – 53.5%	2.5%	16.2%

The higher EBIT growth rate from FY23 to FY24 is due to growth in contribution margin following improvement in sea freight rates and a shift in sales mix from lower to higher margin brands.

At 30 June 2023, the value-in-use calculation for the Australian CGU exceeded the carrying value of its net assets. The surplus amount for the ANZ CGU is \$13,431,000 (30 June 2022: ANZ CGU surplus is \$60,715,737 and Health CGU surplus is \$32,600,631).

Impairment charge

No goodwill impairment charge was recognised in 2023 (2022: nil).

Impact of possible changes in key assumptions

If projected EBIT declined by 13% below current estimates an additional impairment charge of \$9.6 million would arise for the ANZ goodwill. The projected EBIT would need to reduce by 7.6% to result in the recoverable amount of goodwill equal to its carrying amount.

If the discount rate is 100 basis points above the current estimate, an additional impairment charge of \$0.1 million would arise for the ANZ goodwill.

Notes to and forming part of the Consolidated Financial Statements

15. Intangible asset (continued)

Impairment Testing (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 (VIU) or fair value less costs of disposal (FVLCD) calculations.

The fair value less costs of disposal calculations are prepared using the relief from royalty analysis and the value-in-use calculations are prepared using a discounted cash flow analysis. Each analysis calculates the future net contribution expected to be generated by the brand, which is based on the latest Board approved 2024 budget. Cash flows from financial year 2024 are extrapolated using estimated growth rates from the Company's Board approved five-year plan.

The carrying values of the purchased brand names are:

	2023 \$'000	2022 \$'000
Multix	11,866	20,166
Manicare	9,366	9,366
Dr. LeWinn's	5,719	5,719
Maseur	2,161	5,061
Fusion Health	4,200	4,200
Swisspers	4,156	4,156
Other brand names	4,870	5,175
Total brand names	42,338	53,843

The assumptions used in the brand name relief from royalty analysis and the discounted cash flow analysis, are set out below.

30 June 2023

Brands	Valuation method	Estimated annual sales revenue growth rates	Royalty relief rates as % of revenue	Terminal year growth rates	Post-tax discount rates	Pre-tax discount rates
Multix	FVLCD	(8.0%) – 1.7%	2.8%	2.5%	10.0%	13.4%
Manicare	FVLCD	5.5% – 8.0%	6.4%	2.5%	11.0%	14.7%
Dr. LeWinn's	FVLCD	17.5% – 22.9%	3.8%	2.5%	20.0%	26.8%
Maseur	FVLCD	(0.8%) – 3.3%	4.3%	2.5%	14.0%	19.7%
Fusion Health	FVLCD	9% – 17%	4.7%	2.5%	14.0%	19.0%
Swisspers	FVLCD	4.1% – 7.9%	2.4%	2.5%	10.0%	13.3%
Other brand names	VIU / FVLCD	(6.8%) – 11.9%	3.8%	2.5%	11.0% – 12.0%	14.6% – 16.3%

30 June 2022

Brands	Valuation method	Estimated annual sales revenue growth rates	Royalty relief rates as % of revenue	Terminal year growth rates	Post-tax discount rates	Pre-tax discount rates
Multix	FVLCD	(0.5%) – 8.7%	3.6%	2.5%	10.0%	13.4%
Manicare	FVLCD	9.2% – 12.6%	6.4%	2.5%	11.0%	14.6%
Dr. LeWinn's	FVLCD	11.7% – 32.0%	4.5%	2.5%	20.0%	26.3%
Maseur	VIU	8.6% – 8.7%	—	2.5%	14.0%	19.7%
Fusion Health	FVLCD	3.0% – 104.6%	4.7%	2.5%	14.0%	19.1%
Swisspers	FVLCD	5.1% – 9.2%	2.4%	2.5%	10.0%	13.2%
Other brand names	VIU / FVLCD	(32.7%) – 10.0%	4.0% – 10.5%	2.5%	11.0% – 12.0%	14.7% – 16.2%

Notes to and forming part of the Consolidated Financial Statements

15. Intangible assets (continued)

Impairment Testing (continued)

Brand names (continued)

Impairment charge

At 30 June 2023, the total carrying value of brand names was \$42,338,000 (2022: \$53,843,000). The higher valuation of the relief from royalty analysis and the discounted cash flow analysis for these brand names exceeded their carrying values except for Multix, Maseur and Oriental Botanicals.

In the first half of FY23, an impairment charge of \$3,900,000 (2022: nil) was recognised for the Multix brand which was adversely impacted by reductions in volumes due to a deterioration in the weak consumer environment and cost pressures on margins in the domestic grocery channel, which combined to materially impact profitability. A further impairment of \$4,400,000 (2022: nil) was recognised in the second half of FY23 following a reduction in ranging from a key customer in the grocery channel, and continued volume reduction impacted by consumer cost of living pressures resulting in loss of market share to lower cost alternatives.

The Maseur brand enjoyed strong growth in the early stages of the pandemic but following price increases at the start of the financial year, revenue in the first half of FY23 was below expectations and has given rise to a reduced growth expectation, resulting in an impairment of \$800,000 (2022: nil) at 31 December 2022. A further impairment of \$2,100,000 was recognised as consumer demand has been further impacted by an escalation in cost of living pressures.

A further impairment of \$200,000 (2022: nil) was recognised for Oriental Botanicals in the first half of FY23 as a result of management's decision to increase the allocation of new product development and marketing support toward its Fusion Health brand and reduce emphasis on the Oriental Botanicals brand.

When performing the 31 December impairment test of the Maseur brand, an error was identified in the 30 June 2022 FVLCD impairment model. The impairment test for 30 June 2022 was performed using value in use (VIU) and it was determined that the recoverable amount exceeded the carrying value of the brand at that time.

Impact of reasonably possible changes in key assumptions

An impairment was recognised for Multix, Maseur and Oriental Botanicals which resulted in no headroom at 30 June 2023.

If the projected sales by brand were 10.0% below the current estimate, an additional impairment charge of \$1.2 million would arise for Multix, \$0.2 million for Maseur, \$0.1 million for Dr. LeWinn's and \$0.4 million for other brands.

If the royalty rates by brand were 10.0% below the current estimate, an additional impairment charge of \$1.2 million would arise for Multix, \$0.2 million for Maseur and \$0.1 million for Dr. LeWinn's.

If the discount rates by brand were 100 basis points above the current estimate, an additional impairment charge of \$1.4 million would arise for Multix, \$0.2 million for Maseur and \$0.2 million for other brands.

If the terminal rates by brand were 100 basis points below the current estimate, an additional impairment charge of \$1.1 million would arise for Multix, \$0.1 million for Maseur and \$0.2 million for other brands.

Notes to and forming part of the Consolidated Financial Statements

16. Deferred tax assets

	Note	2023 \$'000	2022 \$'000
The balance comprises temporary differences attributable to:			
Employee benefits		1,938	2,050
Depreciation		(300)	487
Net of right-of-use assets and lease liabilities		427	405
		2,065	2,942
<i>Other</i>			
Takeover advisory fees		233	348
Unutilised tax losses		—	230
Transaction costs associated with shares issuance		179	274
Cash flow hedges		73	(412)
Other		318	619
Subtotal other temporary differences		803	1,059
Total temporary differences		2,868	4,001
Set-off of deferred tax liabilities pursuant to set-off provisions	20	(2,868)	(3,723)
Net deferred tax assets		—	278

Movements

	Note	Leases ¹ \$'000	Employee Benefits \$'000	Depreciation \$'000	Other \$'000	Total \$'000
Closing balance at 30 June 2021		506	2,025	953	1,852	5,336
Charged to profit or loss	6	(101)	25	263	(397)	(210)
Charged to other comprehensive income		—	—	—	(716)	(716)
Under/(over) provision in prior years		—	—	(729)	303	(426)
Foreign currency exchange differences		—	—	—	17	17
Closing balance at 30 June 2022		405	2,050	487	1,059	4,001
Charged to profit or loss	6	22	(112)	(100)	(729)	(919)
Charged to other comprehensive income		—	—	—	469	469
Under/(over) provision in prior years		—	—	(687)	24	(663)
Foreign currency exchange differences		—	—	—	(20)	(20)
Closing balance at 30 June 2023		427	1,938	(300)	803	2,868

1. Right-of-use assets net of lease liabilities

	2023 \$'000	2022 \$'000
Deferred tax assets to be recovered within 12 months	2,668	3,248
Deferred tax assets to be recovered after more than 12 months	200	753
Total deferred tax assets	2,868	4,001

Notes to and forming part of the Consolidated Financial Statements

17. Trade and other payables

	2023 \$'000	2022 \$'000
Trade payables	13,392	24,352
Customer contract liabilities	14,687	13,969
Other payables	5,168	4,709
Total current trade and other payables	33,247	43,030
Other payables	706	435
Total non-current trade and other payables	706	435
Total trade and other payables	33,953	43,465

18. Borrowings

	2023 \$'000	2022 \$'000
Bank loan – secured	–	15,000
Bank loan – unsecured	927	–
Debt issue costs	–	(113)
Total current borrowings	927	14,887
Bank loan – secured	13,000	–
Debt issue costs	(408)	–
Total non-current borrowings	12,592	–
Total borrowings	13,519	14,887

	2023 \$'000	2022 \$'000
Interest income		
Interest income	24	31
Borrowing costs		
Borrowing costs applicable to debt facilities	(1,600)	(1,060)
Amortisation of refinancing costs	(186)	(115)
Total borrowing costs	(1,786)	(1,175)
Net borrowing costs	(1,762)	(1,144)

The Group's three-year facility, denominated in Australian dollars, has a facility limit of \$47.5 million (2022: \$47.5 million) and expires in March 2026. This facility comprises two tranches:

- \$45.0 million revolving working capital facility; and
- \$2.5 million documentary facility, covering the Group's bank guarantee and letters of credit requirements.

Drawings under the \$45.0 million working capital tranche of the facility are required to be backed by eligible trade debtor and eligible 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 2023, 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 (2022: \$5 million).

Notes to and forming part of the Consolidated Financial Statements

18. Borrowings (continued)

Security for borrowings

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

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

Assets pledged as security

The following assets are pledged as security:

	2023 \$'000	2022 \$'000
Property, plant and equipment	6,649	6,500
Intangible assets	77,246	88,983
Total non-current assets pledged as security	83,895	95,483
Cash	5,758	11,649
Receivables	27,030	28,610
Inventories	45,086	45,261
Total current assets pledged as security	77,874	85,520
Total assets pledged as security	161,769	181,003

Notes to and forming part of the Consolidated Financial Statements

19. Provisions

	2023 \$'000	2022 \$'000
Provisions – current		
Employee entitlements	6,849	7,012
Employee incentives	232	385
Total current provisions	7,081	7,397
Provisions – non-current		
Employee entitlements	589	744
Cash based performance rights	—	230
Make good provisions	960	951
	1,549	1,925

Restatement of prior year

A reclassification of \$951,000 between lease liabilities and make good provisions was identified for the year ended 30 June 2022.

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 35% 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:

	2023 \$'000	2022 \$'000
Carrying amount at 1 July	385	296
Additional provisions charged to profit or loss	338	656
Unused amounts reversed to profit or loss	(43)	(1)
Payments	(451)	(566)
Foreign currency exchange differences	3	—
Carrying amount at 30 June	232	385

Notes to and forming part of the Consolidated Financial Statements

20. Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Note	2023 \$'000	2022 \$'000
Brand names		9,735	12,284
Customer relationships		550	650
Other		61	61
Total temporary differences		10,346	12,995
Set-off of deferred tax asset pursuant to set-off provisions	16	(2,868)	(3,723)
Net deferred tax liabilities		7,478	9,272
Deferred tax liabilities to be settled within 12 months		611	713
Deferred tax liabilities to be settled after more than 12 months		9,735	12,282
Total temporary differences		10,346	12,995

Movements

	Note	Brand names \$'000	Customer relationships \$'000	Other \$'000	Total \$'000
Closing balance at 30 June 2021		12,284	810	1	13,095
Debited/(Credited) to profit or loss	6	—	(101)	60	(41)
Under provision in prior years		—	(59)	—	(59)
Foreign exchange		—	—	(1)	(1)
Closing balance at 30 June 2022		12,284	650	60	12,994
Debited/(Credited) to profit or loss	6	(2,549)	(100)	1	(2,648)
Under provision in prior years		—	—	—	—
Foreign exchange		—	—	—	—
Closing balance at 30 June 2023		9,735	550	61	10,346

Notes to and forming part of the Consolidated Financial Statements

21. Contributed equity

	2023 \$'000	2022 \$'000
Issued and paid up capital		
143,949,141 fully paid ordinary shares (June 2022: 129,451,100)	217,218	207,244

Movements in ordinary share capital

Date	Details	Number of Shares	Price \$	\$'000
30 June 2021	Closing Balance	128,403,460		206,363
	Employee shares scheme	244,640	1.14	278
	Former Managing Director Performance Rights issue	803,000	0.75	605
	Transaction costs associated with share issuances	—		(3)
	Tax effect of share issue transaction costs recognised directly in equity	—		1
30 June 2022	Closing Balance	129,451,100		207,244
	CWG share subscription fair value	14,223,817	0.68	9,743
	Employee shares scheme	274,224	0.85	232
	Transaction costs associated with share issuances	—		(2)
	Tax effect of share issue transaction costs recognised directly in equity	—		1
30 June 2023	Closing Balance	143,949,141		217,218

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 23.

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 bank debt plus total equity.

	Note	2023 \$'000	2022 \$'000
Total borrowings	18	13,519	14,887
Less: Cash assets	8	(7,031)	(13,139)
Net bank debt, excluding lease liabilities		6,488	1,748
Total equity		109,452	120,806
Total capital		115,940	122,554
Gearing ratio		5.6%	1.4%

Notes to and forming part of the Consolidated Financial Statements

22. Reserves and accumulated losses

a) Reserves

	Note	2023 \$'000	2022 \$'000
Hedging reserve – cash flow hedges		(40)	1,112
Share-based payments reserve		1,625	11,472
Foreign currency translation reserve		2,449	1,959
Financial assets at FVOCI reserve		(6,000)	(6,000)
Total reserves		(1,966)	8,543
Cash flow hedge reserve			
Balance 1 July		1,112	(582)
Revaluation – gross		(208)	1,413
Deferred tax	16	57	(412)
Transfer to cost of sales – gross		(1,413)	997
Deferred tax	16	412	(304)
Total cash flow hedge reserve		(40)	1,112
Share-based payments reserve			
Balance at 1 July		11,472	3,880
Share-based payment expenses	23	127	141
Employee share scheme issued during the year		(231)	(881)
Chemist Warehouse Alliance share based payment		–	9,743
Chemist Warehouse Alliance shares issued		(9,743)	–
Transfer of cancelled rights to retained earnings		–	(1,411)
Total share-based payments reserve		1,625	11,472
Foreign currency translation reserve			
Balance 1 July		1,959	1,899
Currency translation differences arising during the year		490	60
Total foreign currency translation reserve		2,449	1,959
Financial assets at FVOCI reserve			
Balance 1 July		(6,000)	(6,000)
Revaluation – gross		–	–
Deferred tax		–	–
Total financial assets at FVOCI reserve		(6,000)	(6,000)

b) Accumulated losses

	Note	2023 \$'000	2022 \$'000
Balance 1 July		(94,981)	(90,936)
(Loss)/ profit after tax		(5,061)	333
Transfers from Share Based Reserve	22(a)	–	1,411
Dividends provided for or paid	4	(5,758)	(5,789)
Total accumulated losses		(105,800)	(94,981)

Notes to and forming part of the Consolidated Financial Statements

22. 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 or commercial agreements, such as the Chemist Warehouse Strategic Alliance.

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.

23. 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.

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 pages 49 to 51 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.

At the discretion of the People and Culture Committee. No individual has a contractual right to receive any guaranteed benefits.

- Managing Director – 150% of total fixed remuneration in the form of HLP and ELP performance rights
- Other senior executives – 40% of total fixed remuneration

Subject to the ASX Listing Rules, the Board may determine that a Right will become a Vested Right and may be exercised, whether or not any or all applicable exercise conditions have been satisfied if, in the Board's opinion, one of the following events has occurred or is likely to occur and subject to other current facts and circumstances:

- 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.

Notes to and forming part of the Consolidated Financial Statements

23. 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
HLP	Former Managing Director	2022 ¹	First 50% of Rights 30% of Rights vesting at +15.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +20.0% of underlying EPS CAGR Remaining 50% of Rights 30% of Rights vesting at +15.0% TSR CAGR, then pro rata to 100% of Rights vesting at +20.0% TSR CAGR	3 years
		2023	30% of Rights vesting at +20.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +35.0% of underlying EPS CAGR	3 years
Performance Rights	Chief Financial Officer (and Company Secretary)	2021	First 50% of Rights Zero Rights vesting at +3.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +8.0% of underlying EPS CAGR Remaining 50% of Rights 25% of Rights vesting at +8.0% TSR CAGR, then pro rata to 100% of Rights vesting at +13.0% TSR CAGR	3 years
		2022	First 50% of Rights 30% of Rights vesting at +15.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +20.0% of underlying EPS CAGR Remaining 50% of Rights 30% of Rights vesting at +15.0% TSR CAGR, then pro rata to 100% of Rights vesting at +20.0% TSR CAGR	3 years
			First 50% of Rights 30% of Rights vesting at +15.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +20.0% of underlying EPS CAGR Remaining 50% of Rights 30% of Rights vesting at +15.0% TSR CAGR, then pro rata to 100% of Rights vesting at +20.0% TSR CAGR	3 years
		2023	First 66.7% of Rights 30% of Rights vesting at +20.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +35.0% of underlying EPS CAGR Remaining 33.3% of Rights 30% of Rights vesting at +30.0% TSR CAGR, then pro rata to 100% of Rights vesting at +45.0% TSR CAGR	3 years
			First 66.7% of Rights 30% of Rights vesting at +20.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +35.0% of underlying EPS CAGR Remaining 33.3% of Rights 30% of Rights vesting at +30.0% TSR CAGR, then pro rata to 100% of Rights vesting at +45.0% TSR CAGR	3 years
		ELP	Former Managing Director	2022 ¹
2023	30% of Rights vesting at +35.0% TSR CAGR, then pro rata to 100% of Rights vesting at +50.0% TSR CAGR			4 years

1. As announced to the ASX on 17 December 2021, a cash based LTI arrangement will operate for Mr. Peck's Commencement, HLP and ELP rights for FY2022 because of the AGM resolution relating to these rights not being passed at the 2021 AGM. The cash based LTI arrangement adopts the same challenging performance criteria and performance periods over 3 and 4 years as set out in the 2021 AGM Notice of Meeting and are referred to in the HLP and ELP information set out above.

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

	2023		2022	
	Average fair value at grant date	Number of rights	Average fair value at grant date	Number of rights
As at 1 July	\$1.26	1,877,000	\$1.50	3,838,000
Granted during the year	\$0.47	2,289,000	\$0.68	1,606,000
Exercised during the year		—		—
Lapsed during the year		(354,000)		(3,567,000)
As at 30 June	\$0.83	3,812,000	\$1.26	1,877,000
Vested and exercisable		—		—

Notes to and forming part of the Consolidated Financial Statements

23. Share-based payments (continued)

a) Employee Performance Rights Plan (continued)

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

Type of Rights	Grant date	Vesting date	Number of rights	
			30 June 2023	30 June 2022
Equity-settled Performance Rights				
HLP	22 November 2022	22 September 2025	909,000	—
ELP	22 November 2022	22 September 2025	455,000	—
Performance Rights	23 September 2022	25 September 2026	309,000	—
Performance Rights	23 September 2022	22 September 2025	616,000	—
Performance Rights	24 September 2021	24 September 2024	470,000	470,000
Performance Rights	25 September 2020	26 September 2023	117,000	117,000
Performance Rights	25 September 2019	26 September 2022	—	154,000
Cash-settled Performance rights				
HLP	24 September 2021	24 September 2024	624,000	624,000
ELP	24 September 2021	25 September 2025	312,000	312,000
Commencement Rights	24 September 2021	24 September 2024	—	200,000
Total			3,812,000	1,877,000

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

Performance Rights	Fair value
Commencement Rights, HLP and other EPS CAGR performance rights	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 and other TSR CAGR performance rights	Independently valued at grant date using the assumptions underlying the Monte Carlo 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.

The fair value of the Performance Rights issued during the year were valued using the following parameters:

	HLP	ELP	Share-based (EPS & TSR)
Valuation Date	22 November 2022	22 November 2022	23 September 2022
Hurdle start date	1 July 2022	1 July 2021	1 July 2022
Hurdle end date	30 June 2025	30 June 2026	30 June 2025
Share price at grant date	AUD 0.75	AUD 0.75	AUD 0.70
Fair value at measurement date ¹	AUD 0.64	AUD 0.15	EPS: AUD 0.59 TSR: AUD 0.19
Exercise price	AUD 0.00	AUD 0.00	AUD 0.00
Expected volatility ²	53%	53%	54%
Expected dividend yield p.a. ³	5.7%	5.7%	5.7%
Risk free rate p.a. ⁴	3.28%	3.28%	3.63%

1. To calculate fair value, a Monte-Carlo simulation was used to estimate the likelihood of achieving the relative TSR hurdles. For the EPS hurdles, Black-Scholes-Merton model was used to estimate the fair value.

2. Expected volatility is based on historical closing share price over the three-year period to the valuation date.

3. Expected dividend yield is based on historic and future yield estimates.

4. Risk free interest rate is based on three-year yield on Australian government bonds.

Notes to and forming part of the Consolidated Financial Statements

23. Share-based payments (continued)

b) Employee Share Scheme

The McPherson's Employee Share Scheme has been replaced by a more flexible Rewards and Recognition program from FY23, with the objective of improving employee engagement and improving the alignment of investor and employee objectives.

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:

	2023 \$'000	2022 \$'000
Cash-settled Performance Rights issued under the Employee Performance Rights plan ¹	(230)	230
Share based Performance Rights issued under the Employee Performance Rights plan ²	97	(104)
Shares estimated to be issued under the Employee Share Scheme	29	245
Total expenses	(104)	371

1. FY23 includes \$(183,134) from the fair value revaluation of unvested cash based performance rights (624,000 HLP rights and 312,000 ELP rights) retained upon resignation and \$(47,046) forfeiture of 200,000 commencement rights upon resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 2 June 2023.

2. FY23 includes \$68,250 expense accelerated in respect to share-based performance rights (909,000 HLP rights and 455,000 ELP rights) retained upon resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 2 June 2023.

24. Contractual commitments for expenditure

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

a) Capital commitments

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

	2023 \$'000	2022 \$'000
Due not later than one year	449	955

25. Contingent liabilities

As announced to the ASX on 9 December 2022, ASIC has commenced civil proceedings in the Federal Court of Australia against McPherson's Limited and its former managing director/chief executive officer in relation to events during the period 30 October 2020 to 1 December 2020. The company is defending these proceedings and has not recognised a provision for the matter in the financial statements because there is no current liability or present obligation. Given the current stage of the proceedings, it is not practicable for the company to meaningfully determine a possible outcome or range of outcomes in relation to them for the purposes of disclosing an estimate of any possible financial effect, or an indication of the uncertainties relating to the amount or timing of any possible outflow.

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

Notes to and forming part of the Consolidated Financial Statements

26. 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:

	2023 \$	2022 \$
a) PricewaterhouseCoopers Australia		
i) Audit and other assurance services		
Audit and review of financial statements	687,500	453,147
Total remuneration for audit and other assurance services	687,500	453,147
ii) Other services		
Working capital review	—	37,500
Total remuneration for other services	—	37,500
Total remuneration of PricewaterhouseCoopers Australia	687,500	490,647
b) Non PricewaterhouseCoopers audit firms		
i) Audit and other assurance services		
Audit and review of financial statements	64,754	29,091
Total remuneration of non-PricewaterhouseCoopers audit firms	64,754	29,091
Total remuneration of auditors	752,254	519,738

27. Earnings per share

	2023 Cents	Restated 2022 Cents
Basic (loss) / earnings per share	(3.5)	0.3
Diluted (loss) / earnings per share	(3.5)	0.3
Basic earnings per share excluding material items	3.0	5.3
Diluted earnings per share excluding material items	3.0	5.2

Reconciliation of earnings used in calculating earnings per share

	2023 \$'000	2022 \$'000
<i>Basic and diluted earnings per share</i>		
Profit after income tax excluding material items	4,307	6,963
Material items after income tax (Note 3)	(9,368)	(6,630)
(Loss) / profit after income tax	(5,061)	333

Weighted average number of shares

	2023 Number	2022 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	143,868,850	132,450,704
<i>Adjustments for calculation of diluted earnings per share</i>		
Shares to be issued under the employee share scheme	—	322,816
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	143,868,850	132,773,520

Notes to and forming part of the Consolidated Financial Statements

27. Earnings per share (continued)

Restatement of prior year

An error was identified in the calculation of earnings per share disclosed at 30 June 2022. Correcting for this results in diluted earnings per share being 0.3 (previously disclosed 0.2), basic earnings per share excluding specific material items being 5.3 (previously disclosed 5.4) and diluted earnings per share excluding material items being 5.2 (previously disclosed 4.9), for the year ended 30 June 2022.

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 (vested). The unvested Performance Rights have not been included in the determination of basic earnings per share.

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 2022. The McPherson's Employee Share Scheme has been replaced by a more flexible Rewards and Recognition program from FY23, with the objective of improving employee engagement and improving the alignment of investor and employee objectives.

28. 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
Dr. LeWinn's China Limited	Hong Kong

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 33.

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.

Notes to and forming part of the Consolidated Financial Statements

29. 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.

30. 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 2023 of the parties to the Deed of Cross Guarantee.

	2023 \$'000	2022 \$'000
Income statement		
Revenue	193,493	199,708
Other income	25	29
Expenses	(196,961)	(197,991)
Finance costs	(1,759)	(1,123)
(Loss) / profit before income tax	(5,202)	623
Income tax expense	(46)	(41)
(Loss) / profit after income tax	(5,248)	582

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

	2023 \$'000	2022 \$'000
Summary of movements in consolidated accumulated losses		
Accumulated losses at beginning of the financial year	(41,910)	(38,114)
(Loss) / profit after income tax for the year	(5,248)	582
Dividends provided for or paid	(5,758)	(5,789)
Transfer of performance rights cancelled to retained earnings	-	1,411
Accumulated losses at the end of the financial year	(52,916)	(41,910)

Notes to and forming part of the Consolidated Financial Statements

30. Deed of Cross Guarantee (continued)

c) Balance sheet of the parties to the Deed of Cross Guarantee

	2023 \$'000	2022 \$'000
Current assets		
Cash and cash equivalents	5,081	10,726
Trade and other receivables	26,615	28,005
Inventories	41,959	42,226
Derivative financial instruments	624	2,038
Current tax asset	—	1,322
Total current assets	74,279	84,317
Non-current assets		
Other financial assets	—	51
Property, plant and equipment	6,485	6,347
Right-to-use asset	10,871	12,568
Intangible assets	78,718	90,453
Contract assets	7,588	8,845
Investments	71,493	71,493
Total non-current assets	175,155	189,757
Total assets	249,434	274,074
Current liabilities		
Trade and other payables	47,388	55,406
Borrowings	927	14,887
Lease liabilities	3,305	3,041
Derivative financial instruments	866	779
Provisions	6,093	6,396
Current tax liabilities	1,399	—
Total current liabilities	59,978	80,509
Non-current liabilities		
Other payables	706	435
Borrowings	12,595	—
Lease liabilities	8,029	9,921
Derivative financial instruments	—	—
Provisions	1,548	1,923
Deferred tax liabilities	7,612	9,406
Total non-current liabilities	30,490	21,685
Total liabilities	90,468	102,194
Net assets	158,966	171,880
Equity		
Contributed equity	217,218	207,244
Reserves	(5,336)	6,546
Accumulated losses	(52,916)	(41,910)
Total equity	158,966	171,880

Notes to and forming part of the Consolidated Financial Statements

31. Notes to the statement of cash flows

a) Reconciliation of net cash inflows from operating activities to (loss) / profit after income tax

	2023 \$'000	2022 \$'000
(Loss) / profit after income tax	(5,061)	333
<i>Non-cash items included in Profit / (loss) after income tax:</i>		
Share of loss in joint ventures	—	159
Depreciation of property, plant and equipment	1,657	1,778
Amortisation of intangibles assets	475	564
Depreciation of right-of-use asset	3,853	3,332
Share-based payments expense	(104)	379
Impairment of intangible assets	11,462	—
Amortisation of contract assets	1,116	
<i>Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets:</i>		
(Decrease)/Increase in payables	(9,248)	1,556
(Decrease)/Increase in employee entitlements	(490)	251
Increase/(Decrease) in net tax liabilities	1,685	(99)
Decrease/(Increase) in receivables	773	7,835
Decrease/(Increase) in inventories	430	2,487
Net cash inflows from operating activities	6,548	18,575

b) Non-cash investing and financing activities

There were no non-cash investing and financing activities in the years ended 30 June 2022 and 2023.

c) Net debt reconciliation

	2023 \$'000	2022 \$'000
Cash and cash equivalents	7,031	13,139
Current lease liability	(3,736)	(3,571)
Borrowings	(13,519)	(14,887)
Non-current lease liability	(8,194)	(9,971)
Net debt	(18,418)	(15,290)
Cash and cash equivalents	7,031	13,139
Gross debt at fixed interest rates (lease liabilities)	(11,930)	(13,542)
Gross debt at variable interest rates	(13,519)	(14,887)
Net debt	(18,418)	(15,290)

	Liabilities from financing activities			Total \$'000
	Cash and cash equivalents \$'000	Borrowings \$'000	Leases \$'000	
Net debt as at 1 July 2022	13,139	(14,887)	(13,542)	(15,290)
Cash flows	(6,108)	1,073	4,039	(996)
Acquisition – leases	—	—	(2,169)	(2,169)
Disposal – leases	—	—	30	30
Foreign exchange adjustment	—	—	(17)	(17)
Other non-cash movements	—	295	(271)	24
Net debt as at 30 June 2023	7,031	(13,519)	(11,930)	(18,418)

Notes to and forming part of the Consolidated Financial Statements

32. Events occurring after balance date

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

33. Parent entity financial information

a) Summary financial information

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

	2023 \$'000	2022 \$'000
Balance Sheet		
Current assets	2,223	3,679
Total assets	168,390	170,046
Current liabilities	56,848	67,172
Total liabilities	69,721	67,185
Shareholders' equity		
Issued capital	217,218	207,244
Cash flow hedge reserve	(59)	1,072
Share-based payments reserve	1,625	11,704
Financial assets at FVOCI reserve	(6,000)	(6,000)
2016 accumulated losses	(116,095)	(116,095)
Post 2016 retained earnings	1,979	4,935
Total shareholders' equity	98,668	102,860
Profit for the period	2,802	6,124
Total comprehensive income	1,671	7,793

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 30 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.

Shareholder Information

The shareholder information set out below was applicable as at 31 August 2023.

Share capital

The ordinary share capital in the Company was held by the following number of shareholders as at 31 August 2023:

Range	Total holders	Total shares	% Shares
1 – 1,000	1,771	804,807	0.56
1,001 – 5,000	1,895	5,087,002	3.53
5,001 – 10,000	708	5,407,488	3.76
10,001 – 100,000	1,162	33,618,643	23.35
100,001 and over	104	99,031,201	68.80
Total	5,640	143,949,141	100.00
Holding less than a marketable parcel	1,785	818,956	0.57

Twenty Largest Shareholders as at 31 August 2023

Rank	Name	Number of Shares	% Shares
1	CITICORP NOMINEES GROUP	22,436,553	15.59
2	CW RETAIL HOLDINGS PTY LTD <CW RETAIL HOLDINGS A/C>	14,223,817	9.88
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	10,563,586	7.34
4	HSBC CUSTODY NOMINEES GROUP (AUSTRALIA) LIMITED	10,365,192	7.20
5	NATIONAL NOMINEES GROUP	9,302,234	6.46
6	GALLIN PTY LTD	6,350,000	4.41
7	H & J & L PTY LTD	2,410,000	1.67
8	BNP PARIBAS NOMS PTY LTD <DRP>	1,445,880	1.00
9	P C COTTON PTY LTD <GOLDCRAFT PTY LTD SUPER A/C>	1,117,483	0.78
10	MR HANSJOERG ZINSLI	1,025,000	0.71
11	MR JOHN GASSNER + MR NATHAN ROTHCHILD	1,017,501	0.71
12	EXLDATA PTY LTD	863,405	0.60
13	STRATEGIC VALUE PTY LTD <TAL SUPER A/C>	575,975	0.40
14	EGEA PTY LTD	570,239	0.40
15	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	410,910	0.29
16	GANZI FAMILY SUPER PTY LTD <HANSJOERG ZINSLI S/F NO ₂ A/C>	379,000	0.26
17	EXLDATA PTY LTD	364,612	0.25
18	MS KYLIE LYNETTE NUSKE + MR MATTHEW JAMES COOK <VISION SPLENDID SUPER A/C>	341,997	0.24
19	MRS MAYSA SABOUNE	329,000	0.23
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	322,145	0.22
Total 20 largest shareholders		84,414,529	58.64
Total remaining shareholders		59,534,612	41.36
Total ordinary fully paid shares		143,949,141	100.00

Shareholder Information

Substantial shareholders

The names and shareholdings of substantial shareholders who have notified the Company in accordance with Section 671B of the *Corporations Act 2001* as at 31 August 2023 are as follows:

Name of substantial holder	Number of shares held	% of total issued shares
CW Retail Holdings Pty Ltd	14,223,817	9.9%
Spheria Asset Management Pty Ltd	12,320,037	8.6%
Man Group PLC	9,822,026	6.8%
Australian Ethical Investment Limited	9,302,309	6.5%
Microequities Asset Management Pty Ltd	9,117,571	6.3%
Investors Mutual Limited	7,738,226	5.4%

Voting rights

Each ordinary share on issue entitles the holder to one vote. Performance Rights have no voting rights.

Unquoted equity securities

The number of unquoted equity securities on issue at 31 August 2023 is 2,759,000 performance rights. The number of holders of unquoted securities (performance rights) is 5.

McPherson's listing

McPherson's Limited is listed on the Australian Securities Exchange.

Corporate Directory and Financial Calendar

McPherson's Limited

ACN: 004 068 419
ASX CODE: MCP

McPherson's Limited is a company limited by shares, incorporated and based in Australia. Its registered office and principal place of business is located at:

105 Vanessa Street
Kingsgrove NSW 2208

Telephone: (02) 9370 8000
Facsimile: (02) 9370 8091

Email: enquiries@mcpher.com.au
Website: www.mcphersons.com.au

Auditors

PricewaterhouseCoopers

One International Towers Sydney Watermans Quay
Barrangaroo NSW 2000

Share Registry

Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Telephone within Australia: 1300 85 05 05
Telephone outside of Australia: +61 3 9415 5000

Facsimile: (03) 9473 2500
www.computershare.com
www.investorcentre.com/contactus

Shareholder Enquiries

Shareholders who wish to contact the Company on any matter related to their shareholding are invited to telephone or write to the Share Registry. It is important that shareholders notify the Share Registry in writing if there is a change to their registered address, bank account, email address or other personal details. For added protection, shareholders should always quote their Securityholder Reference Number (SRN)

Financial Calendar¹

November 2023

McPherson's Limited will be holding a hybrid Annual General Meeting (AGM) at 11:00am (AEDT) on Tuesday 28 November 2023. Shareholders can attend the AGM in person at the offices of MA Financial Group, Level 27, 10 Carrington Street, Sydney, 2000 or access the meeting online via the following link: <https://web.lumiagm.com/324266654>.

Shareholders will be able to participate in the AGM online using a smartphone, tablet or computer.

February 2024

Appendix 4D for the half year ended 31 December 2023

August 2024

Appendix 4E for the financial year ended 30 June 2024

October 2024

Annual Report for the financial year ended 30 June 2024

1. Dates and location may be subject to change



McPHERSON'S
Est. 1860

McPherson's Limited 2023 Annual Report