



Health
Wellness
Beauty

30 September, 2022

Company Announcements
ASX Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

ANNUAL REPORT 2022

Dear Sir / Madam,

Please find attached a copy of the McPherson's Limited Annual Report for the year ended 30 June 2022.

Approved for release by MCP's Board of Directors.

Yours sincerely,

P R Bennett
Company Secretary

ASX:
MCP

ABN:
98 004 068 419

ADDRESS:
105 Vanessa Street
Kingsgrove
NSW 2208

PHONE:
(02) 9370 8000

For personal use only



MCPHERSON'S
Est. 1860

Providing care solutions to nurture

Confident, Healthy & Sustainable Lifestyles

2022 ANNUAL REPORT

Health, Wellness & Beauty

02

Financial Highlights

06

Joint Message from the
Company's Chair and
Chief Executive Officer

10

Our Commitments

14

Caring for our
People

18

Review of Operations

32

Information on Directors

36

Directors' Report

122

Shareholder Information

04

Key Achievements

08

Caring for our
Environment

12

Our Partnerships

16

Caring for our
Community

22

Category Overview

35

Corporate Governance
Statement

70

Financial Report

124

Corporate Directory
& Financial Calendar



Our Business

DR. LEWINN'S[®]

[A'kin]



manicare[®]



GLAM
by manicare

swisspers[®]



McPherson's Limited was established in 1860 and has become a leading supplier of Health, Wellness and Beauty products with operations in Australia, New Zealand, and Asia.

Our purpose is to provide care solutions to nurture confident, healthy, and sustainable lifestyles and we deliver this through our trusted and innovative brands. Our diversified market-leading brand portfolio consists of eight owned core brands, including Dr. LeWinn's, A'kin, Manicare, Glam by Manicare, Lady Jayne, Swisspers, Multix and Fusion Health.

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. Manufacturing is outsourced to various suppliers, predominantly in Asia and Australia.



FINANCIAL

Highlights

TOTAL SALES REVENUE

\$214_m

▲ 7% on FY21: \$200.5m

SALES GROWTH OF CORE OWNED BRANDS

11%

FY22: \$165m; FY21: \$149m

UNDERLYING EBIT

\$11.8_m

▲ 9% on FY21: \$10.8m

UNDERLYING PBT

\$10.7_m

▲ 11% on FY21: \$9.6m

GEARING

1%

FY21: 7%

FULLY FRANKED DIVIDEND

5.0 CPS

FY21: 5.0 cps

For personal use only

A'KIN
MASK RANGE



Key Achievements



New Leadership structure, business processes and focus

We have a new simplified structure aligned with our growth opportunities. Complex and unrewarding joint venture arrangements have been exited.



Continued innovation and focus on NPDP

We continue to focus our innovation on the sustainability credentials of our products with particular emphasis on Swisspers and Multix.



Ranging increments driving brand performance

Our brands are continuing to grow the categories in which they participate and accordingly are receiving increased ranging from our customers.



Growing with winning customers in partnership

Our service model is extensive in the pharmacy channel, with our reach key to leveraging partnerships across the breadth of the Health and Wellness landscape.



—
LADY JAYNE
CORE RANGE

Reset year has created a platform for growth



Price increases implemented in inflationary environment

We have pivoted to the inflationary cycle and our core brands have taken responsible price actions to mitigate cost inflation.



Strategic Alliance between McPherson's (MCP) and Chemist Warehouse (CWG)

In March this year MCP established a Strategic Alliance with CWG whereby MCP has been appointed as CWG's exclusive long-term distributor for a select ranging of CWG's brands, and CWG will increase its ranging of MCP's brands, recognising MCP as a preferred supplier. In return CWG has been issued with 14.2 million shares in MCP, escrowed for a period of 2 years.



Supply stability provides strong growth opportunities in Health

With improvement in supply confidence, particularly in respect of the Fusion range, we are now accessing further distribution opportunities available to this brand.



More cross business alignment and resource leverage between Health & Beauty

We continue to integrate the Health and Beauty sales force in Australia as we drive efficiency and optimise our return on investment in this key component of our model.

—
LADY JAYNE
TANGLE PRO



JOINT MESSAGE FROM THE COMPANY'S

Chair and Chief Executive Officer

We are pleased that fiscal 2022 was a year where our refined strategy, improved processes and clearer focus resulted in improved performance and produced a strengthened base for future growth. The Company's market leading owned brands, complemented by the first full year contribution from the Fusion Health brand, generated 7% growth in total sales revenue to \$214.0 million and 9% growth in underlying earnings before interest and tax (EBIT) to \$11.8 million. This was achieved despite the impact from COVID-19 and constraints to underlying profitability from protracted increases in commodity prices and sea freight costs.

The Company's continued commitment to innovation and investment in new product development was a major catalyst for the double-digit revenue growth achieved in both owned brand sales and underlying profit before tax. Our three core Essential Beauty brands, Manicare, Swisspers and Lady Jayne, all experienced strong double-digit growth in sales and Multix grew by 10%. Domestic skincare sales grew by 6%, with Dr. LeWinn's growing by 8% and A'kin declining marginally. Sales of lower margin agency and private label products declined by 16% and 25% respectively, as the Company continued to focus on its owned brands.

The Fusion Health and Oriental Botanicals brands were acquired on 30 November 2020 as the Company pursued its strategy to expand into Health products, consequently 2022 was the Company's first full year of ownership of these brands. Despite a difficult first half for the Health business with many health stores closed for extended periods due to COVID-19 lockdowns, like-for-like sales growth of 19% was achieved in 2H22, driven by 26% growth in Fusion Health.

Fusion Health has previously had relatively narrow distribution in the domestic Pharmacy channel, in comparison to the Company's other core brands, and will be one of the key beneficiaries of the new Strategic Alliance with Chemist Warehouse, announced on 24 March 2022.

Under this Strategic Alliance McPherson's has been appointed as Chemist Warehouse's exclusive long-term distributor for a select portfolio of Chemist Warehouse-owned or controlled health and beauty brands outside of the Chemist Warehouse Network in Australia and New Zealand. The exclusive distribution rights apply for an initial term of five-years, with three five-year options to extend the arrangements at the Company's discretion, subject to certain minimum performance thresholds.

Chemist Warehouse will also increase the portfolio of McPherson's brands which it currently ranges in Australia and New Zealand and recognise McPherson's as a preferred supplier, with an initial term of five-years and three five-year options to extend the arrangements at Chemist Warehouse's discretion.

As part of the Strategic Alliance Chemist Warehouse has been issued with 14.2 million shares, escrowed for a period of 2 years. McPherson's expects the Strategic Alliance to be EPS accretive in FY23.

The Company recorded a \$4.5 million decline in International sales, largely due to the \$4.2 million decline in sales of Dr. LeWinn's product into China in FY22. Trading conditions in the cross-border e-commerce channel continued to be challenging in FY22 as the Company transitions to a more diversified channel strategy. The Company has made positive progress in defining its strategy map for restoring growth in its international markets, with a priority on establishing a broader, relatively low investment, digital path-to-purchase for its consumers.

The FY22 financial statements include a one-off provision of \$9.4 million in relation to excess Dr. LeWinn's inventory (and associated costs) that was sourced in 2019 and 2020 specifically to satisfy anticipated demand from China.

The Company achieved strong underlying cash conversion of 129% in FY22, with net debt excluding lease liabilities remaining low at \$1.7 million and the Company's gearing ratio (net bank debt excluding lease liabilities / total funds employed) negligible at 1% at 30 June 2022.

Given the Company's strong balance sheet and franking credit balance, the Board has maintained full year dividends at 5.0 cents per share fully franked, representing an underlying payout ratio of 97%. The Company's dividend policy is to pay a minimum dividend of 60% of underlying profit after tax, subject to other cash requirements.

Given the Company's low level of net debt, the Board will consider capital management initiatives in conjunction with the upcoming debt facility review in 1H23, remaining cognisant of evolving macro-economic conditions and business requirements.

The continued, disruptive impact of COVID-19 and the current challenging talent market have reinforced the importance of attracting, retaining and motivating our people. Various initiatives have been implemented by our People & Culture Team in 2022, including the introduction of more flexible working arrangements, utilising technology to facilitate enhanced remote engagement between teams and reviewing how our culture and values contribute to McPherson's success.

"We are pleased that fiscal 2022 was a year where our refined strategy, improved processes and clearer focus resulted in improved performance and produced a strengthened base for future growth."



During 2022, the Company refreshed its Executive Leadership Team, introducing well credentialled executives with relevant global experience in health and beauty sales and marketing, while adopting a simplified structure aligned to our growth opportunities. The Board and Management have developed a refined statement of the Company's Purpose and Values. This is outlined in more detail in this Annual Report.

The Board continued its rejuvenation in 2022 with the following changes:

- Ari Mervis was appointed Board Chair, with Graham Cubbin stepping down as Board Chair, each with effect from 21 July 2021;
- Helen Thornton was appointed as an independent, Non-Executive Director on 20 December 2021;
- Graham Cubbin retired from the Board with effect from 21 February 2022; and
- In February 2022 a comprehensive review was undertaken of the structure of the Board's supporting committees and their membership, resulting in the establishment of a new Risk & Compliance Committee and changes in membership of existing committees.

We are thankful for the significant contribution that Graham Cubbin made to the Company over his 11 years as a Director. His leadership and guidance were fundamental to the clarification of the Company's strategic direction as a Health, Wellness and Beauty brand owner and provider.

Encouraged by the Company's improved performance in FY22, your Board and Management remain aware of the need for continued improved performance. We remain confident in our ability to drive continued growth through customer, channel and category expansion, enabled by targeted investment in product innovation and an enhanced and capable leadership team. We thank our shareholders for their continuing support and look forward to delivering sustainable profitable growth.

ARI MERVIS
Chair

Grant Peck
CEO & MD

DR. LEWINN'S
MARINE COLLAGEN PEPTIDE+
INNER BEAUTY LIQUID SHOT



CARING FOR OUR

Environment

Statement from the CEO and Managing Director

For over 160 years McPherson's has continually evolved to adapt to an ever-changing world. From our early days supplying the rivets for Australia's major infrastructure projects, including the Sydney Harbour Bridge, to our current role in supplying sustainable health, wellness, and beauty solutions.

Our mindset is all about caring for our people, our customers, our environment, and this serves us well as we once again adapt and begin our evolution to become a sustainable business.

Sustainability is a risk and opportunity to business, but more than that, it is a shared responsibility with our broader society and the natural world. We take our responsibility seriously and our strategy reflects this. As well as our tangible commitments, outlined in our strategy, we also commit to being as transparent as possible with reporting on our progress, and undoubted setbacks.

We will be working collaboratively with our suppliers, service providers and our customers to achieve the level of change we collectively require. The pace and scope of our approach may change over time however we will always be guided by what science is telling us.

McPherson's senior leaders and I were so proud to approve and endorse our first sustainability strategy this year and I look forward to the work ahead as we witness this strategy come to life.



Grant Peck
CEO & MD

"We want to proactively assist our customers around the world drive positive change through their purchasing decisions."





OUR

Commitments



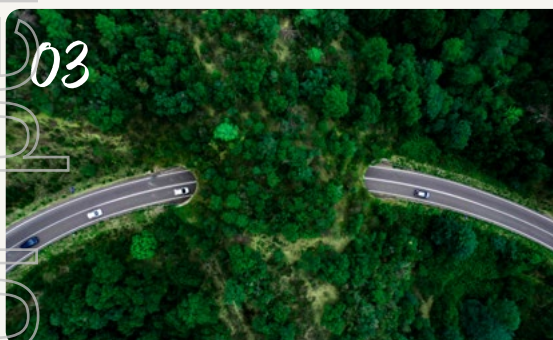
Achieve Net Zero by 2035 across our scope 1,2 and 3 emissions. We have established a project team to create the boundaries of our scope 3 emissions and develop a road map to achieve this goal.

Sustainable Development Goals



Achieve the APCO Sustainable Packaging Goals by 2025 across our core brands.

Sustainable Development Goals



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

Sustainable Development Goals



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.

In early 2022, McPherson's committed to four goals as part of our first Sustainability Strategy.

This financial year saw McPherson's launch its first Sustainability Strategy. This strategy is our road map, guiding us as we play our part in the work required during the Decade of Action.

We have a long way to go, as a company and a society, and these pages capture the highlights of our efforts in this space throughout FY22.

Sustainability is a complex, multifaceted topic and no two businesses will, or should, approach it in the same way.

McPherson's focus isn't just on operating our business in a more sustainable way. We want to proactively assist our customers around the world drive positive change through their purchasing decisions. The highlights below capture our commitments and partnerships as part of our work towards these goals.



Did you know?

This year our New Zealand team changed their fleet vehicles to hybrids

Target

100% reusable, recyclable or compostable packaging.

70% of plastic packaging being recycled or composted.

50% average recycled content included in packaging^ (revised from 30% in 2020).

0% The phase-out of problematic and unnecessary single-use plastic packaging.

Source: APCO 2022



MULTIX
GREENER PLANT
BASED CLING WRAP

For personal use only



SUGAR BABY
SELF TANNING RANGE

For personal use only



OUR

Partnerships

We are partnering with the NSW Government's Sustainability Advantage program to assist us with our vital work. Sustainability Advantage has been partnering with organisations in NSW to accelerate positive impact at scale since 2006. Their four focus areas are:



UN SDG's



Circular Economy



Net Zero



Nature Positive

Sustainability Advantage are a great fit for McPherson's on our sustainability journey.

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



CARING FOR OUR

People

At McPherson's we care for our people and celebrate our Culture

Our Values

This year provided us the opportunity to refresh our values statement to ensure it's a true reflection of who we are. With the challenges provided by the COVID environment over the last few years, our experience of what is most important to us provided a unique opportunity to refine what we stand for. Our new values statement is motivating our performance now and into the future. Caring is who we are.

CARE
INNOVATE
RESILIENT
INCLUSIVE
INTEGRITY
GROW



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

McPherson's Values

We will



Care for each other, the environment
and the community



Innovate and create
for a better tomorrow



Be resilient and agile in
the face of change



Be open and
inclusive



Act with integrity
and respect



Strive to grow personally
and professionally

CARING FOR OUR

Community

True to our values, McPherson's is 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 – it is part of our DNA.

Supporting You When You Need Us Most

On 23 November 2021, the Bureau of Meteorology (BOM) officially declared that Australia was in a La Niña, a complex weather pattern that leads to higher rainfall along with more intense cyclones. The onset of La Niña has seen extreme weather events across the eastern seaboard.

These events led to multiple flooding events impacting parts of NSW and QLD, leaving thousands of Australians displaced. We feel it is important when those around us are in need we help where we can, so McPherson's partnered with Good360 and Mondiale VGL to help flood victims across the country. We donated a substantial amount of relevant product to Good360's Flood Appeal and Mondiale VGL Flood Disaster Donation Drive, so they could support local communities in need.

Mondiale VGL is one of Australia's largest privately owned international freight forwarding companies, delivering a comprehensive logistics system for all worldwide trade lanes through an extensive global network. Mondiale VGL started the "Rising Above for Lismore" drive for the community of Lismore who were devastated by the recent floods.

Good360 is a matchmaker, connecting brand-new goods donated by businesses to people and communities who need them the most. Good360 matches the right goods, to the right people, at the right time through all stages of disaster recovery, to help local communities recover and rebuild, providing hope and dignity.

We are so pleased we can support those in need during such tumultuous times and continue to look for new ways of supporting those severely impacted by the floods.





Continuing to Give the Gift of Confidence

In March, Lady Jayne launched a limited-edition Scarf and Scrunchie set where 100% of profits were donated to CanTeen NZ, to support young people across Aotearoa (New Zealand) affected by cancer, whether it's their own diagnosis or that of an immediate family member. CanTeen NZ's mission is to make sure they don't have to face cancer alone. Close to 2,000 units were sold through Chemist Warehouse NZ Stores.

Partnering to Protect Our Ocean

Moving from our land to our ocean, we have partnered with The Great Barrier Reef Foundation for the last two years as part of a Sugarbaby collaboration. A portion of every Sugarbaby product sold is 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. This year we donated \$10k which will be directed to projects with large-scale impact, helping protect coral reefs and the animals that depend on them.



Great Barrier Reef Foundation



Partnering to Protect Our Environment

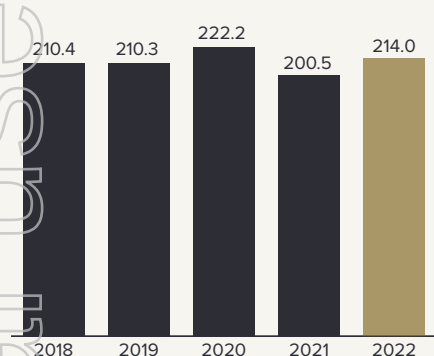
McPherson's partnered with Trees That Count in February as part of a Multix Greener collaboration, where a portion of sales went towards the conservation charity to continue to plant trees. We helped plant over 1000 native trees across Aotearoa. Trees That Count is a New Zealand charity that brings together businesses, community, and everyday Kiwis, with the vision of helping plant millions of native trees across the country.

Planting just one native tree in the backyard, or hundreds in the community, contributes to carbon dioxide sequestration, which in turn helps to reduce climate change, boosting biodiversity, cleaning waterways, strengthening ecosystems, and building capacity in local communities. With like-minded values we are proud to partner with Trees that Count so together we can work towards protecting our environment, creating awareness, and building a more sustainable future.

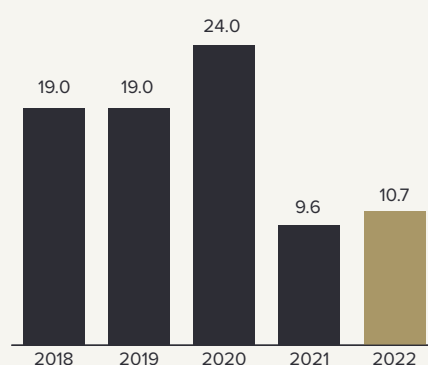
REVIEW OF

Operations

SALES (\$M)

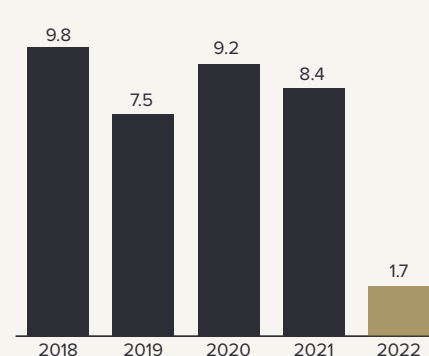


PROFIT BEFORE TAX* (\$M)



*Excluding significant items.

NET DEBT* (\$M)



*Net debt excluding lease liabilities.

Results for the year

McPherson's has reported sales of \$214.0 million for the year ended 30 June 2022, a 7% increase on the previous year's \$200.5 million, driven by a positive 12% growth in sales of the Company's owned brand products.

Sales revenue in the Essential Beauty category, comprising Manicare, Lady Jayne and Swisspers, grew by 15% and Multix grew by 10%. The Health brands of Fusion Health and Oriental Botanicals, which were acquired on 30 November 2020, grew by 92% due to their first full year of trading under McPherson's ownership and also increased over last year on a like for like basis. The Skincare category, comprising Dr. LeWinn's and A'kin, declined by 10%, largely due to a 57% decline in sales in International markets. Agency and private label sales declined by 15% and 26% respectively.

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.

Underlying earnings before interest and tax (EBIT) was \$11.8 million, 9% above FY21 (\$10.8 million), excluding the following material items in FY22:

- Dr. LeWinn's inventory provision (\$9.4) million;
- Chemist Warehouse Strategic Alliance establishment expenses (\$0.6) million;
- Restructuring expenses (\$0.6) million; and
- Other items including reversal of estimated joint venture costs \$0.3 million.

Underlying profit before tax (PBT) was \$10.7 million, 11% above FY21 (\$9.6 million), excluding the PBT impact of the material items noted above. Underlying earnings per share (EPS), excluding material items, increased by 6% from 5.1 cents in FY21 to 5.4 cents in FY22.

Inclusive of the material items, McPherson's reported a statutory profit after tax of \$0.3 million (FY21: (\$5.4) million loss after tax).

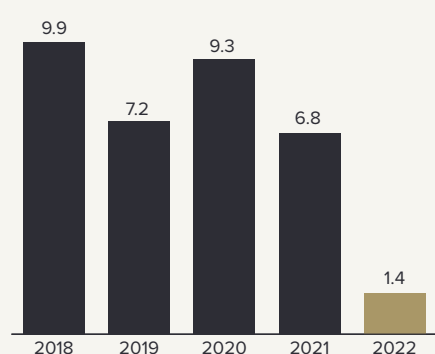
McPherson's achieved very strong underlying cash conversion of 129% in FY22 (FY21: 110%). Net bank debt remains low at \$1.7 million (FY21: \$8.4 million), with the Company's underlying leverage ratio (net bank debt / underlying EBITDA) remaining low at 0.1 times at 30 June 2022 (FY21: 0.5 times). The Company's gearing ratio (net bank debt / total funds employed) was also low at 1.4% at 30 June 2022 (FY21: 6.8%).

McPherson's Directors declared total ordinary dividends of 5.0 cents per share (cps) fully franked for FY22, in-line with the total FY21 total ordinary dividend payout of 5.0 cents per share fully franked. The dividend payout ratio for the year ended 30 June 2022 was 97% of underlying profit after tax (FY21: 104%).



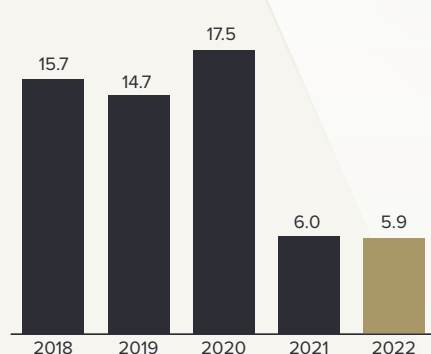
SUGAR BABY
SUN-BELIEVABLE
SELF TANNING MOUSSE

GEARING* (%)



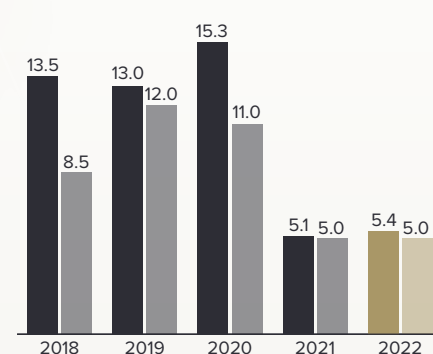
*Net debt excluding lease liabilities / (shareholders' funds + net debt excluding lease liabilities).

**RETURN ON AVERAGE
SHAREHOLDER FUND*** (%)



*Profit after tax excluding significant items) / 2-year average shareholders' funds.

**UNDERLYING EARNINGS AND
DIVIDENDS PER SHARE*** (CENTS)



*Excluding significant items.

Strategic Alliance with Chemist Warehouse

On 24 March 2022, McPherson's announced it had entered into a series of formal agreements with relevant members of Chemist Warehouse Group ("CWG") to establish a unique Strategic Alliance with CWG, structured to deliver material commercial and operational benefits to McPherson's.

In summary, under these agreements:

1. McPherson's was appointed as Chemist Warehouse's exclusive long-term distributor for a select portfolio of Chemist Warehouse-owned or controlled health and beauty brands outside of the Chemist Warehouse Network in Australia and New Zealand ("Exclusive Distribution Agreement"). The range, which includes Wagner Vitamins, Wagner Body Science, Bondi Protein, Foster Grant, INC and Microgenics, has significant consumer support and will now be available to all pharmacies within the McPherson's distribution network. Chemist Warehouse will, by way of initial engagement and training, and by making relevant knowhow, IP and other deliverables available to McPherson's, support the effective sale and distribution of the CWG brands under the Exclusive Distribution Agreement. The exclusive distribution rights will be for an initial term of five-years commencing from 1 July 2022. McPherson's has three five-year options to extend the arrangements, subject to certain minimum performance thresholds on a brand-by-brand basis which McPherson's considers it is well placed to meet;
2. Chemist Warehouse will increase the portfolio of McPherson's brands which CWG currently ranges in Australia and New Zealand, to include Moosehead, Maseur, Fusion Health, Stratton, Sugar Baby and Happy Flora. Chemist Warehouse will also recognise McPherson's as a preferred supplier of CWG, allowing McPherson's to enjoy the benefits of that status ("Preferred Brand Agreement"). The Preferred Brand Agreement has an initial term of five-years commencing 1 July 2022. Chemist Warehouse has three five-year options to extend the arrangements; and
3. As part of the Strategic Alliance, Chemist Warehouse was issued 14.2 million McPherson's shares on 1 July 2022, thereby becoming a substantial shareholder, with a holding of 9.9% of McPherson's shares on a fully diluted basis.

The initial establishment of the Strategic Alliance will have no material cashflow implications for McPherson's.

All McPherson's shares issued to Chemist Warehouse will be escrowed for a period of 2 years until 1 July 2024, and are subject to market standard stand-still arrangements.

McPherson's expects the Strategic Alliance to be EPS accretive in FY23 (being the first financial year of the arrangement) based on the growth targets agreed between McPherson's and Chemist Warehouse.

REVIEW OF

Operations *(continued)*

FY22 Performance by Commercial Business Unit (CBU)

As an outcome of the May 2021 Operational Review, McPherson's established three Commercial Business Units (CBU) in order to drive focused accountability and profitability on each key element of the Company's operations.

The CBUs established were:

- Australia and New Zealand CBU;
- Health CBU; and
- International CBU.

Australia and New Zealand (ANZ) CBU

The ANZ CBU comprises the Company's Beauty and Household Consumable brands sold into the Australian and New Zealand markets.

Segment information	FY22 (\$m)	FY21 (\$m)	\$ Variance	% Variance
Sales	187.7	178.4	9.3	5.2%
Underlying EBIT	16.1	16.5	(0.4)	(2.4%)

The 5.2% increase in ANZ sales was driven by a 10.8% increase in sales of owned brand products. This strong growth was achieved due to domestic growth in market share in 4 of the 6 core categories in which the Company operates.

The Company's Essential Beauty brands all experienced strong double-digit growth in sales and Multix grew by 10.3%, due to the success of new products introduced in FY22 and the strength of the Company's customer relationships and fulfilment processes. Domestic Skincare sales grew by 5.8%, with Dr. LeWinn's growing by 8.1% and A'kin declining marginally.

Sales of lower margin agency and private label products declined by 15.7% and 25.5% respectively.

Unfortunately, the favourable contribution impact of strong growth in owned brand sales was offset by material and unprecedented cost pressures in commodities and sea freight, which increased \$4.4 million (31%) and \$3.5 million (164%) in FY22 compared with the prior year. The cost of resin and aluminium, which are key inputs in the manufacture of Multix products, were adversely impacted by escalations in the price of oil, natural gas and electricity. The overall contribution margin recorded in FY22 was 39.3% (FY21: 40.4%).

In response to these cost pressures, significant price adjustments were processed for a broad range of Multix products in 2H22, with broader selling price adjustments planned for FY23 across most core brands.

Operating expenses increased by \$2.0 million or 3.7% from \$55.6 million in FY21 to \$57.6 million in FY22, the primary areas of increase being advertising and promotional expense (\$1.5 million) and freight to customers (\$0.7 million).

Health CBU

The Health CBU comprises the Company's Health brands sold into the Australian and New Zealand markets, the dominant brand being Fusion Health.

Segment information	FY22 (\$m)	FY21 (\$m)	\$ Variance	% Variance
Sales	18.4	9.7	8.7	89.7%
Underlying EBIT	3.4	1.5	1.9	126.7%

The 89.7% growth in Health sales reflects the Company's first full year of ownership of the Fusion Health and Oriental Botanicals brands. Impressive like-for-like growth of 19.2% was achieved in 2H22, driven by 25.6% growth in Fusion sales.

The Fusion brand has previously had relatively narrow distribution in the domestic Pharmacy channel in comparison to the Company's other core brands and will be a key beneficiary of the new Strategic Alliance with Chemist Warehouse.

The overall contribution margin was unchanged in FY22 at 55.7%. Operating expenses increased by 76.3% from \$3.9 million in FY21 to \$6.9 million in FY22, a lower rate of increase than the growth in sales, reflecting integration efficiencies.



International CBU

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

Segment information	FY22 (\$m)	FY21 (\$m)	\$ Variance	% Variance
Sales	7.9	12.4	(4.5)	(36.3%)
Underlying EBIT	(2.6)	(1.7)	(0.9)	(52.9%)

The 36.3% decline in International sales was largely due to the \$4.2 million decline in sales of Dr. LeWinn's product into the Chinese market from \$6.7 million in FY21 to \$2.5 million in FY22. Trading conditions in the cross border e-commerce channel continued to be challenging in FY22 as the Company transitions to an expanded channel strategy. The Company has made positive progress in defining its

International strategy map for the future, with a priority on establishing a broader digital path-to-purchase for its consumers.

Sales to the Singapore market and surrounding regions declined by \$0.3 million from \$4.1 million in FY21 to \$3.8 million in FY22, as COVID-19 had a significant impact on in-bound tourism and overall consumer demand in these markets.

The overall contribution margin declined from 44.2% in FY21 to 37.4% in FY22 as the Company cleared excess Dr. LeWinn's inventory at low margins. Operating expenses decreased by 23.1% from \$7.2 million in FY21 to \$5.5 million in FY22, the primary area of reduction being advertising and promotional expense.

Material items

Further information regarding the primary material item, being the Dr. LeWinn's inventory provision of \$9.4 million, is provided below.

The Company's FY21 results release noted that improved FY22 performance was subject to Dr. LeWinn's returning to growth in China and no significant interruption of supply chain or significant economic impact resulting from COVID-19 related lockdowns. Disappointingly sales of Dr. LeWinn's product to China were significantly below expectations throughout FY22, with cross-border e-commerce distribution into China not showing signs of improvement.

Following efforts to secure sales in China through a variety of strategies, the Company concluded that there was no material improvement in the short-term and that it did not expect any material profit contribution from its trading in China in FY22. Consequently, the Board determined that it was prudent to incur a one-off provision of \$9.4 million in relation to excess Dr. LeWinn's inventory (and associated costs) that was acquired in 2019 and 2020 specifically to satisfy anticipated demand from China.

While various options have continued to be explored to sell the excess Dr. LeWinn's inventory, the scale of the provision reflects a desire to maintain the health of the brand and reduce the adverse impact of substantial in market discounting. As this provision has arisen because of a fundamental change in the cross-border market and the recognition by the Company of a requirement to restructure the approach to selling Dr. LeWinn's in China, the provision has been classified as a non-recurring, material item and has been excluded from the Company's underlying earnings.

The remaining material items are considered self-explanatory.



McPherson's

*"Nurturing confident, healthy
and sustainable lifestyles
with trusted, innovative brands"*

—
**MANICARE
BATH RANGE**

For personal use only

CATEGORY

Overview

MANICARE
SLEEP MASK



CATEGORY

Overview *(continued)*

[A'kin][®]

A'KIN

A'kin continues to leverage core brand credentials with established natural credibility, Australian quality, and clinically proven formulations. With the demand for haircare treatment products, A'kin has been able to capitalise on this trend across all channels with this segment a major contributor to performance.

FY22 Highlights

- Strong growth in the grocery channel, stable performance in pharmacy and ecommerce.
- A'kin Deodorants are in double digit growth +12.9% vs LY.
- Successful launch of A'kin Purifying Scalp Revival Scrub with 50% of annual volume sold in the first 3 months. Scalp Scrub is formulated with powerful botanical ingredients, Bamboo Extract, Australian Avocado & Jojoba Oil, Aloe Vera accompanied with an uplifting citrus fragrance. The hardworking scrub is backed by user and lab trials to deliver a deep cleanse for healthy hair and scalp.

- Rose & Sandalwood Roll-on Deodorant won 'Best Deodorant' in the 2021 Prevention Best of Beauty Awards.
- Volumising Shampoo, Rose & Sandalwood Spray Deodorant & Brightening Facial Oil were awarded 'Runner Up' in the 2021 Beauty Heaven Best in Beauty Awards.
- A'kin's Brand Awareness Media Campaign reached over 8 million consumers via catch up TV, digital and social channels.

Looking to the future A'kin will continue to launch on trend innovation with mass appeal to drive trial. We are focused on building awareness through digital media and leveraging our retailer vehicles to accelerate growth. We are committed to building omni channel scale to unlock expansion potential across global markets.

A'KIN
PURIFYING SCALP
REVIVAL SCRUB



DR. LEWINN'S®

DR LEWINN'S

Dr. LeWinn's continued to demonstrate clinical expertise and innovation within the domestic skincare market.

The domestic market has consistently garnered strength across the past year, driven by a combination of innovation, renovation, mastered promotional performance and an established communications strategy, all of which strengthened the brand opportunity.

Dr. LeWinn's China experienced a challenging year in FY22 due to COVID-19 with the continued delay of the daigou trade due to travel restraints, and heavy stock-weight in the supply chain from the previous year. With the new business structure to be finalised in early FY23, we are expecting Dr. LeWinn's China to grow with confidence. Refining the China strategy has enabled Dr. LeWinn's to rebuild the brand as a true cosmeceutical skincare expert, providing cutting-edge anti-ageing solutions to Chinese consumers.

Singapore has seen a successful relaunch of Dr. LeWinn's into Watsons, the market's No.1 health, personal care and beauty retailer, bringing about an incremental 360% increase in sales versus last year. The focus on accelerating ecommerce growth with the leading player, Lazada has also reaped encouraging results.

Dr. LeWinn's brand innovation strategy focuses on high-growth segments that allow range optimisation. Tapping into consumer beauty behaviours of achieving optimum skincare results from the inside and out, Dr. LeWinn's has continued to extend its successful Inner Beauty range which currently owns +12% of Dr. Lewinn's total portfolio.

Two new ingestible beauty products were launched in the past year; Marine Collagen Peptide+ Inner Beauty Berry Flavoured Powder and Marine Collagen Peptide+ Inner Beauty Orange and Mango Liquid Shots. These flavour extensions join Marine Collagen Peptide+ Inner Beauty Peach Flavoured Liquid Shots and Marine Collagen Peptide+ Inner Beauty Unflavoured Powder, both holding strong in Dr. LeWinn's top ten product rankings at #3 and #7 respectively, and allow us to further establish our position as the skincare authority within the Vitamins, Minerals and Supplements category.

The efficacious 2022 launch of Ultra R4 Collagen Surge Overnight Sleep Mask allowed Dr. Lewinn's to further build on the Ultra R4 benefit story, halo its bestselling product Ultra R4 Collagen Surge. This helps position Dr. LeWinn's as a brand with powerful anti-ageing offerings without the need for invasive procedures, bridging the gap between cosmetic procedures and at-home, salon quality products.

Providing an advanced double serum formula delivered in an innovative dual delivery system that ensures optimum potency of the serums until application, UR4 Collagen Surge Overnight Sleep Mask addresses three consumer trends; the demand for serums, the ongoing interest in masks, and sleep focused treatments which have become more of an opportunity post COVID-19, with more personal care products incorporating wellbeing benefits such as 'enhanced/improved sleep' in their offering.

The complete renovation of Eternal Youth encompassed both formulation and packaging for a sleek new look that reflects the new luxurious, clinically proven formulations. Eternal Youth's facelift accelerated sales of this sub range +29.6% vs budget, for the sub-brand that continues to build.



DR. LEWINN'S
ULTRA R4 COLLAGEN
SURGE OVERNIGHT
SLEEP MASK

Dr. LeWinn's will continue to renovate core ranges such as brand loyalists' favourite Private Formula, to maintain their relevancy and continue their momentum. Further development of existing sub-ranges with the latest cosmeceutical solutions will ensure we are connecting with the enhanced beauty seeker via the most relevant and meaningful touchpoints, with an emphasis on media and digital platforms, all with a focus to build on the established successes in the domestic market and to fuel international growth across existing and new markets.



CATEGORY

Overview *(continued)*

GLAM
by manicare®

Glam by Manicare

In FY22 Glam's retail sales achieved \$15.7 million accelerating 13.8% ahead of the eyelash segment. Growth on the portfolio driven within the pharmacy channel due to an exceptional sales result over the heightened 'party season' from September to December; exhibiting the highest uplift to date outperforming pre-pandemic levels.

Glam launched superior innovation via the HYDRO lash (water activated) lash range achieving strong trial within key customers and the continued success of the Glam Ready range of pre-glued continues to attract new users to the brand, with the 'easy to wear' formats.

Glam continues to expand the brands expertise with specialised brow and lash tools, as well as the further extension of the cosmetic skincare brush range.

—
GLAM BY MANICARE
HEATED LASH CURLER



—
MANICARE
THERMAL SONIC
CLEANSER



—
MANICARE
MAGNIFYING
PORE VACUUM



For personal use only



MANICARE
CONTOUR ROLLER SET

manicare®

MANICARE

In FY22, the Manicare Beauty Tools and Accessories Market leader passed \$60 million in retail sales holding 29.6% market share.

Innovation and reinvention are strategic imperatives for Manicare, with the successful launch and execution of 10 new products within the portfolio and consumer recognition through Beauty Heavens Best in Beauty Awards. 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 Microneedle Derma Roller and Contour Roller Set firmly targeted at beauty enthusiasts keen to easily elevate their routine.

Manicare has also continued to expand its range of Specialty skincare tools range with the Manicare Salon range clinically proven, delivering transformative results for the ultimate at home salon solutions with three major launches in 2022. The revolutionary Magnifying Pore Vacuum with in camera-device has attracted high rates of interest and sales within pharmacy; supported by an integrated digital media campaign which leveraged the influential ‘Mamamia’s You Beauty’ community to try and review the product.

Manicare Salon Thermal Sonic Cleanser is the latest in power cleansing with a warming function to provide ultra clean skin, whilst the Manicare Salon Firming Body Sculptor combines both LIPO Vacuum and Electronic Muscle Stimulation technologies to reduce the appearance of cellulite, with clinically proven results.

Reinvention with the Core range of Manicare has also unlocked value growth within the range through the strong distribution of the Manicare DermaSmooth fuzz remover adding over \$1 million in retail sales in FY22, as well as the Professional range of manicure and pedicure tools across pharmacy and grocery channels.

Manicare's commitment to educating consumers on the latest beauty tips and tricks through new devices is supported via our Social Media vehicles. Our communication approach is designed to ultimately support self care and continue to build trust with a broad and diverse consumer base.

CATEGORY

Overview *(continued)*



LADY JAYNE

Lady Jayne achieved \$23 million in retail sales in FY22 and delivered +12% growth over the prior year.

The portfolio performance was driven by the high performing core brush and innovative 'detangling' ranges across both the pharmacy and grocery channels. New distribution points via increased store ranging within grocery strengthened baseline and incremental weekly sales.

Lady Jayne has continued to bring reinvention to the core range accessories portfolio, releasing on trend, impulse

accessory lines including headbands, clips, scrunchies and fashion hair pins to drive greater repertoire purchase and brand consideration. As a primary brand activity, investment in permanent point of sale solutions continued throughout the year which provide a total portfolio merchandising solution across the broader pharmacy channel.

In the second half of the year Lady Jayne delivered high value growth via the launch of the brand's first rechargeable hair straightening brush. Boasting fast heat up

time and satisfying the benefit of ultra-convenient 'on the go' styling. The brush commands a premium value proposition within the range at RRP of \$79. The launch was supported by a comprehensive digital and social campaign which drove consumer trial and penetration. Since launch the brush has reached the #1 NPD value contributor in the category with our core pharmacy customers.



LADY JAYNE
HEATED STRAIGHTENING
BRUSH



MULTIX

Despite a challenging economic climate Multix delivered 6.2% retail sales growth and maintained #1 position in key segments: foil (59.5% value share), garbage bags (50.1%), freezer bags (63.6%) and bake paper (34.8%).

In October 2021 Multix Greener was awarded the coveted Nielsen IQ Bases 2021 Breakthrough Innovation title. This competition focuses not just on products but takes into consideration the depth of consumer insights which led to development of the products as well as the go to market strategy.

Multix remains the second biggest sustainable brand in the market, with sustainable kitchen tidy segment growing +13.7%, thanks to strong performance of recycled kitchen tidy line extension – the first sustainable disposal bag with a lemon fragrance. Multix prides itself on bringing insight driven innovations to the market. Research revealed that lemon fragrance bags are 66% more preferred over no fragrance or any other fragrance.

As compostable and plant-based technologies, which were first brought to by Multix, are now well established, they were extended into new segments with the launch of plant based freezer bags and compostable cling wrap.

Thanks to the strong performance of Multix bake in other channels, Woolworths has agreed to range Multix Greener Brown Bake Paper, including the new 40m pack size to offer better value to consumers.

This year Multix's marketing communication embraced the diverse population of Australia, depicting people of all ages, genders, and many ethnic backgrounds driving higher engagement with consumers.



MULTIX
GREENER BROWN
BAKING PAPER

CATEGORY

Overview (continued)

swisspers®
Baby.

Personal use only



swisspers®

SWISSPERS

Swisspers, an iconic Australian brand trusted and loved by Australian families, had a strong year in FY22, fuelling category growth, and strengthening market leadership as the #1 Cotton Brand in Australia with 64.8% market share*, and increase of +2.7 share points compared to FY21.

Range expansions within the Swisspers Earth Kind™ portfolio has been a focus for Swisspers, supporting the brands' initiative of continuing to strengthen and grow its sustainability portfolio offering. In FY22 Swisspers launched its first Reusable Eco Cleansing Pads made from 100% natural fibres of bamboo and cotton for soft and gentle make-up removal and skin cleansing, without wastage.

In anticipation of the single use plastic ban across the country, Swisspers successfully partnered with key retailers, those with plastic reduction initiatives in place, to phase out plastic stem cotton tips. The transition from plastic stems to cotton tips with paper stems, continued to contribute to incremental sales growth across Pharmacy and Grocery. Swisspers continues to hold its position as market leader of sustainable cotton tips in Australia with retail sales of \$19.5m.

Innovation has been a key driver of Swisspers ongoing brand success. Swisspers expanded its range into an adjacent high growth category with the introduction of the Swisspers™ Baby range, offering a collection of gentle and safe

bath time essentials enriched with natural cotton milk – natural oils and extracts hidden from the cotton boll. The range is created for sensitive skin, with three hypoallergenic, vegan and dermatologically tested formulas.

*Data sourced from IRI Market Edge based on data definitions powered by McPherson's Consumer Products. Australian Pharmacy & Grocery Weighted Market Cotton Category MAT19/06/22.



FUSION HEALTH

In FY22 Fusion Health continued its dominance as one of the leading VMS brands in the health food channel in Australia with an estimated 95% distribution. It is now poised for growth with the announcement of distribution expansion into pharmacy, including Chemist Warehouse roll-out having commenced in May 2022. The move into pharmacy will also provide visibility of brand performance and metrics through scan data which is not available in the health food channel.

FY22 Highlights

- Fusion's Wintering Well campaign promoting the immune health product range was recognised with two prestigious industry awards:
 1. The Complementary Healthcare Products (CHP) Self Care Excellence Award; This award looks at how the campaign promotes the quality use of medicines and how it helps consumers make better decisions about their health; and
 2. Complementary Medicines Australia (CMA) highly commended Outstanding Marketing Campaign award.
- Two new product launches, Fusion Immunity & Stress and Fusion Quercetin Advanced capitalising on key categories and trending ingredients in times of heightened concern for immune health and stress support.
- Fusion's social media advertising resulted in a total reach of over 4 million people, a 5.18% year on year increase, and total clicks of 169,146, an increase of 47.4%.
- Total impressions from Google advertising increased 162%, with click-throughs increasing 190% to 179,279 clicks.
- Customer education continues to be a vital tool in telling the Fusion Health story and we continue to use multiple approaches to spread the word. We launched a new online Learning Management System (LMS) – McPherson's Academy, which provides easy-to-access information on a large range of McPherson's brands and has driven education across the health and beauty aspects of the business. For Fusion Health, this saw us launch nine eLearning modules and register 1,006 new learners who completed over 2,500 modules.
- In total, FY22 saw nearly 3,000 store staff educated across eLearning, face-to-face and online events including over 40 live webinars. This included education events for health professionals such as naturopaths and pharmacists. In addition, our Naturopathic Advisory Team answered nearly 3,000 customer and consumer health and product queries.

FUSION QUERCETIN ADVANCED



INFORMATION ON

Directors



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 from 21 July 2021
- Deputy Chair of the Board from 27 April 2021 (until 21 July 2021)
- Member of the Audit Committee and the People and Culture Committee from 22 February 2022

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



GRANT W. PECK B. Bus, CA

Managing Director and Chief Executive Officer

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.

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
- Member of the People and Culture Committee (until 22 February 2022)

Other current Directorships in ASX listed companies

- None

Former Directorships in ASX listed companies in last three years

- None

Interests in shares and performance rights

- 55,400 ordinary shares in McPherson's Limited
- No performance rights held over shares*

*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 Commencement, HLP and 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.



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 Audit, Risk Management and Compliance Committee (until 22 February 2022)
- Member of the Risk and Compliance Committee from 22 February 2022

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



GEOFFREY R. PEARCE

Non-Independent Non-Executive Director

Expertise and experience

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

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

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

INFORMATION ON

Directors (continued)



ALISON J. COOK MSc (Hons)

Independent Non-Executive Director

Expertise and experience

Ms. Cook was appointed an Independent Non-Executive Director of McPherson's Limited on 24 July 2018. 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 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 Audit, Risk Management and Compliance Committee from 19 January 2021 (resigned as Chair on 22 February 2022)
- Chair of the Risk and Compliance Committee from 22 February 2022
- Member of the People and Culture Committee from 22 February 2022

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



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, which complement the existing experience base of the Board.

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, Ansvar Insurance Ltd and Yarra Valley Water.

Ms. Thornton 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 from 22 February 2022
- Member of the Risk and Compliance Committee from 22 February 2022

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

- No interests in shares
- 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 2022 to the Australian Securities Exchange (ASX) on 25 August 2022.

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 Company undertook a comprehensive review of its corporate governance arrangements during the prior year, including with reference to the 4th Edition of the Corporate Governance Principles and Recommendations ("Corporate Governance Principles") issued by the ASX Corporate Governance Council, and the Board made a range of changes to the Company's Board charters and policies following that review.

The related Board charters and policies have been subject to further Company and Board reviews and update in FY22.

Conformity with the 4th Edition of the ASX Corporate Governance Principles

The Group's corporate governance arrangements have conformed to the 4th Edition of the ASX Corporate Governance Principles for the whole of the year ended 30 June 2022 and until the date of the statement.

Corporate Governance Statement Approval

The 2022 Corporate Governance Statement has been approved by the Board and is current as at 24 August 2022. The statement outlines the Group's main corporate governance practices in place during the financial year ended 30 June 2022 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 2022.

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	- Appointed as Chair on 21 July 2021 - Appointed as member of the Audit Committee and the People and Culture Committee on 22 February 2022
G.A. Cubbin	- Resigned as Chair on 21 July 2021 - Resigned as a Non-Executive Director on 21 February 2022
G.W. Peck	Chief Executive Officer and Managing Director
J.M. McKellar	- Chair of the People and Culture Committee - Resigned as member of the Audit, Risk Management and Compliance Committee on 22 February 2022 - Appointed as member of the Risk and Compliance Committee on 22 February 2022
A.J. Cook	- Resigned as Chair of the Audit, Risk Management and Compliance Committee on 22 February 2022 - Appointed as Chair of the Risk and Compliance Committee on 22 February 2022 - Appointed as member of the People and Culture Committee on 22 February 2022
G.R. Pearce	
H. Thornton	- Appointed as Non-Executive Director on 20 December 2021 - Appointed as Chair of the Audit Committee and member of the Risk and Compliance Committee on 22 February 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 3.0 cents per fully paid ordinary share paid on 18 March 2022 (fully franked)	3,859
Final ordinary dividend of 2.0 cents per fully paid ordinary share declared by the Directors (fully franked) and payable on 23 September 2022 but not recognised as a liability at year end	2,873
Total dividends in respect of the financial year	6,732

The 2021 final ordinary dividend of \$1,930,000 (1.5 cents per fully paid ordinary share) was paid on 23 September 2021. A full year dividend of \$6,424,000 (5.0 cents per fully paid ordinary share) was paid in respect of the 2021 financial year.

d) Consolidated results

The consolidated profit after tax of the Group for the financial year ended 30 June 2022 was \$333,000 (2021: \$5,371,000 loss after tax). The current year profit after tax is inclusive of material items amounting to a net expense after tax of \$6,630,000 (2021: \$11,556,000). The consolidated profit after tax for the year ended 30 June 2022, excluding significant non-recurring items, was \$6,963,000 (2021: \$6,185,000). Refer to Note 3 Material Items for further information.

Directors' Report (continued)

e) Review of operations

An extract of the review of operations of the Group is set out on pages 18 to 21 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 all risks and compliance obligations are properly identified and managed, that insurances are adequate and that processes are in place to ensure compliance with regulatory requirements.

During FY22, the Board established a Risk and Compliance Committee, which has a primary responsibility regarding oversight of risk identification and risk mitigation, and also includes responsibility for matters pertaining to compliance and governance. Previously these matters were the responsibility of the Board's Audit Risk Management and Compliance Committee (now renamed as the Audit Committee).

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. Significant effort and attention have been placed on safeguarding our staff and their work environments throughout the COVID-19 phase. A tone of safety first is set at the top of the organisation and is reinforced through commitment of resources.

- **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, 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 and key commodity inputs including resin and aluminium. The Company is seeking to mitigate the impact of these 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.

Directors' Report (continued)

e) Review of operations (continued)

Risk management and compliance (continued)

• 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 Strategic Alliance with Chemist Warehouse 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 isolated 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 in excess of \$10 million.

• 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. 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 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.

• 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.

• The impact of COVID-19 and future pandemics

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

f) Significant changes in the state of affairs

On 24 March 2022, McPherson's Limited entered into a series of agreements with Chemist Warehouse Group ("CWG") establishing a unique Strategic Alliance with CWG to deliver material commercial and operational benefits to McPherson's in exchange for an issue of 14.2 million McPherson's shares. For further information refer to note 12.

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

g) Events subsequent to balance date

On 1 July 2022, McPherson's Limited issued 14,223,817 fully paid ordinary shares to Chemist Warehouse thereby making it a substantial shareholder, with a holding of 9.9% of McPherson's share on a fully diluted basis. The shares are escrowed for a period of 2 years and will be subject to market standard stand-still arrangements.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2022 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

h) Likely developments and expected results of operations

In the opinion of the Directors, it would prejudice the interests of the Group to include additional information, except as noted above, and as reported elsewhere in the Directors' Report and the financial statements, which relates to likely developments in the operations of the Group and the expected results of these operations in financial periods subsequent to 30 June 2022.

Directors' Report (continued)

i) Information on Directors

Particulars of the qualifications, experience and special responsibilities of each Director as at date of this report are set out on pages 32 to 34 of the Annual Report (except for the former Director of McPherson's Limited) and form part of the Directors' Report.

The interests of Directors in the share capital of the parent entity and/or in a related entity are contained in the register of Directors' shareholdings of the Company as at the date of this report, are set out on pages 32 to 34 of the Annual Report and form part of the Directors' Report.

GRAHAM A. CUBBIN B.Econ. (Hons)

Independent Non-Executive Director until 21 February 2022

Expertise and experience

Mr. Cubbin was appointed as Independent Non-Executive Director of the Company on 28 September 2010 until he resigned on 21 February 2022. Graham was appointed Chair of McPherson's Limited on 1 July 2015 and held that position until 21 July 2021.

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

Special responsibilities

- Chair of the Board (until 21 July 2021)
- Member of the People and Culture Committee
- Member of the Audit, Risk Management and Compliance Committee

Other current Directorships in ASX listed companies

- Director of Bell Financial Group Limited and White Energy Company Limited

Former Directorships in ASX listed companies in last three years

- Director of Challenger Limited
- Director of WPP AUNZ Limited

Interests in shares and performance rights

- 283,953 ordinary shares in McPherson's Limited
- No performance rights held

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 2022, and the number of meetings attended during that period by each Director, are set out below:

Directors	Board meetings		Audit Committee ¹ meetings		People and Culture Committee meetings		Risk and Compliance Committee ² meetings	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Ari Mervis ³	18	18	1	1	3	3	n/a	n/a
Grant W. Peck ⁴	18	18	n/a	n/a	2	2	n/a	n/a
Jane M. McKellar ⁵	18	18	3	3	5	5	1	1
Geoffrey R. Pearce	18	14	n/a	n/a	n/a	n/a	n/a	n/a
Alison J. Cook ⁶	18	18	4	4	3	3	1	1
Helen L. Thornton ⁷	7	7	1	1	n/a	n/a	1	1
Graham A. Cubbin ⁸	13	13	3	3	2	2	n/a	n/a

1. During the year the name of the 'Audit, Risk Management and Compliance Committee' was changed to 'Audit Committee'.

2. The Risk and Compliance Committee was established with effect from 22 February 2022.

3. Ari Mervis was appointed a member of the Audit Committee and the People and Culture Committee on 22 February 2022.

4. Grant Peck ceased to be a member of the People and Culture Committee with effect from 22 February 2022.

5. Jane McKellar ceased to be a member of the Audit Committee and was appointed a member of the Risk and Compliance Committee, on 22 February 2022.

6. Alison Cook was appointed a member of the People and Culture Committee and a member (and Chair) of the Risk and Compliance Committee on 22 February 2022.

7. Helen Thornton was appointed a Director on 20 December 2021. She was appointed a member (and Chair) of the Audit Committee and a member of the Risk and Compliance Committee on 22 February 2022.

8. Graham Cubbin retired as a Director with effect from 21 February 2022.

j) Company Secretaries

PHILIP R. BENNETT B.Com, CA

Joint Company Secretary

Expertise and experience

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

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

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

PAUL WITHERIDGE B.Com, FCA

Chief Financial Officer and Joint Company Secretary

Expertise and experience

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

Mr. Witheridge holds a Bachelor of Commerce and is a Fellow of the Institute of Chartered Accountants in Australia and New Zealand.

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

Directors' Report (continued)

k) Remuneration Report

LETTER FROM THE CHAIR OF THE PEOPLE AND CULTURE COMMITTEE

Dear Shareholders,

The Board is pleased to present McPherson's Remuneration Report for the year ended 30 June 2022. This report outlines the FY22 remuneration structure and outcomes for McPherson's Key Management Personnel (KMP), being the Managing Director, the Chief Financial Officer (CFO), and Non-Executive Directors. The report also covers remuneration policies and outcomes for other senior executives within the Senior Leadership Team.

Our Remuneration Report provides shareholders with a clear and transparent explanation of how we aligned our remuneration policies and outcomes with business performance, reflecting principles which require remuneration to be market competitive, performance based and equitable, and aligned with shareholders' returns.

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

FY22 Remuneration Outcomes

In the context of the performance outlined in the Review of Operations, which was marginally below the Short-Term Incentives (STI) vesting thresholds, the Company has not made or accrued any payments as part of its STI plan in FY22.

Long-Term Incentives (LTI) in the form of performance rights issued in 2018 and 2019, which have been assessed based on FY22 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.

Consistent with the business performance in FY22 and market benchmarking data provided by external remuneration consultants, there were no increases to Total Fixed Remuneration (TFR) of the KMP or Senior Leadership Team members in FY22 except for the Commercial Director ANZ because of specific increases in her responsibilities.

Changes to FY23 Remuneration Structure

FY23 Short-Term Incentives (STI)

The Board, after considering market benchmark data provided by external remuneration consultants, and the recommendation of the People and Culture Committee, has approved the following STI program for FY23 for the Managing Director and other Senior Leadership Team (SLT) members, noting that all underlying profit before tax (PBT) thresholds below are self-funding, i.e. inclusive of the requisite provision for STIs and LTIs.

FY22 STI attributes	Changes to FY23
The performance assessment periods were split between 1H22 and 2H22 to acknowledge the inherent uncertainty arising from the COVID-19 pandemic, the resulting economic environment instability and its potentially adverse impact on the Company's financial performance, especially export markets.	The performance assessment period will revert to the full financial year.
70% of STI was based on <u>one</u> financial performance metric, being underlying profit before tax (PBT). 30% of STI was based on non-financial measures, being pre-determined significant role specific objectives.	70% of STI will be based on <u>two</u> financial performance metrics: a) 50% of STI will be 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 \$10.0m 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 \$10.7m in underlying PBT.

Directors' Report (continued)

k) Remuneration Report (continued)

LETTER FROM THE CHAIR OF THE PEOPLE AND CULTURE COMMITTEE (continued)

Changes to FY23 Remuneration Structure continued

FY23 Long-Term Incentives

The Board, as recommended by the People and Culture Committee, has approved the following terms in relation to the LTI structure and performance rights over ordinary shares (Rights) to be granted in FY23.

The number of performance rights to be granted is calculated as the applicable percentage of the total remuneration package divided by the VWAP of the Company's shares on the ASX over 20 trading days ending at close of trade, on the day which is two days before the date of offer of the performance rights.

KMP	FY22 LTI attributes	Changes to FY23
Chief Executive Officer ¹	Maximum LTI 150% of fixed remuneration and comprised of: - High Level of Performance Rights (HLP Rights) at 100% of fixed remuneration with a performance term of 3 years - Exceptional Level of Performance Rights (ELP Rights) at 50% of fixed remuneration with a performance term of 4 years	Consistent with FY22.
	HLP Rights vesting hurdles – EPS CAGR: 50% of HLP Rights with vesting outcomes tied to underlying EPS CAGR performance, and with the following hurdles: 30% of HLP Rights vesting at +15.0% underlying EPS CAGR, then pro rata to 100% of HLP Rights vesting at +20.0% underlying EPS CAGR.	HLP Rights vesting hurdles – EPS CAGR: Amended from 50% of HLP Rights in FY22 to 100% of HLP Rights with vesting outcomes tied to underlying EPS CAGR performance, and with the following amended hurdles: 30% of HLP Rights vesting at +20.0% underlying EPS CAGR, then pro rata to 100% of HLP Rights vesting at +35.0% underlying EPS CAGR.
	HLP Rights vesting hurdles – TSR CAGR: 50% of HLP Rights with vesting outcomes tied to TSR CAGR performance, and with the following hurdles: 30% of HLP Rights vesting at +15.0% TSR CAGR, then pro rata to 100% of HLP Rights vesting at +20.0% TSR CAGR.	HLP Rights vesting hurdles – TSR CAGR: No HLP Rights vesting will be based on TSR CAGR performance hurdles in FY23.
	ELP Rights vesting hurdles – TSR CAGR: 100% of ELP Rights with vesting outcomes tied to TSR CAGR performance, and with the following hurdles: 30% of ELP Rights vesting at +20.0% TSR CAGR, then pro rata to 100% of ELP Rights vesting at +25.0% TSR CAGR.	ELP Rights vesting hurdles – TSR CAGR: Consistent with FY22, 100% of ELP Rights with vesting outcomes tied to TSR CAGR performance, but with the following amended hurdles: 30% of ELP Rights vesting at +35.0% TSR CAGR, then pro rata to 100% of ELP Rights vesting at +50.0% TSR CAGR.
Other Senior Leadership Team members	Maximum LTI 40% of fixed remuneration. 50% of vested outcomes tied to EPS CAGR performance, and 50% to TSR CAGR vesting hurdles. Performance term of 3 years.	Consistent with FY22, being 40% of fixed remuneration but with amendment to the allocation between underlying EPS CAGR (increased from 50% to 66.7%) and TSR CAGR (decreased from 50% to 33.3%) vesting hurdles. No change to the performance term of 3 years.
	Vesting hurdles for FY22: First 50% of Rights: 30% of Rights vesting at +15.0% underlying EPS CAGR, then pro rata to 100% of Rights vesting at +20.0% 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.	Vesting hurdles for FY23: First 66.7% of Rights: 30% of Rights vesting at +20.0% underlying EPS CAGR, then pro rata to 100% of Rights vesting at +35.0% 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.

1. The proposed grant of LTI performance rights to the CEO in FY23 under the terms of his employment agreement are subject to shareholder approval at the Company's 2022 Annual General Meeting (AGM). References above to the CEO's FY22 LTI attributes relate to the terms of the proposed grant of LTI performance rights to the CEO in FY22 as set out in the Company's 2021 AGM Notice of Meeting.

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

Yours sincerely

JANE MCKELLAR

Chair of the People and Culture Committee

Directors' Report (continued)

k) Remuneration Report (continued)

The McPherson's Limited FY22 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 and other key management personnel.

The remuneration report contains the following sections:

- Key Management Personnel (KMP)
- Principles used to determine the nature and amount of remuneration
- 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*.

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 FY22
Executives		
G.W. Peck	Chief Executive Officer and Managing Director	Full year
P. Witheridge	Chief Financial Officer and Joint Company Secretary	Full year
L. Pirozzi	Commercial Director ANZ	Resigned on 31 December 2021
Non-Executive Directors		
A. Mervis	Deputy Board Chair Board Chair	Appointed on 27 April 2021 (until 21 July 2021) Appointed on 21 July 2021
G.A. Cubbin	Board Chair Non-Executive Director	Resigned as Board Chair on 21 July 2021 Resigned as a Non-Executive Director on 21 February 2022
J.M. McKellar	Non-Executive Director	Full year
G.R. Pearce	Non-Executive Director	Full year
A.J. Cook	Non-Executive Director	Full year
H. Thornton	Non-Executive Director	Appointed on 20 December 2021

Changes since the end of the reporting period

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

Directors' Report (continued)

k) Remuneration Report (continued)

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	- Attract and retain KMP and employees with the necessary capabilities and experience to deliver McPherson's business strategy. - Remuneration structure and quantum benchmarked to the external market applying applicable remuneration surveys and publicly disclosed data. - Independent review of KMP remuneration benchmark data by McPherson's remuneration consultants. - A blend of fixed and variable remuneration (both short and long-term) based on the responsibilities of each role.
Performance-based and equitable	- Performance and reward aligned to motivate management to deliver long-term growth for McPherson's and its shareholders. - Differentiation of remuneration outcomes based on superior individual contribution to McPherson's performance. - Demonstration of McPherson's values and associated behaviours assessed in the performance management process and accordingly linked to remuneration outcomes. - Rigorous annual calibration of performance and reward recommendations to ensure internal equity, fairness and transparency.
Aligned with shareholders and underpinned by sound risk management	- 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.

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
 Fixed Remuneration ↓	 Short Term Incentive (at risk) ↓			 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 (continued)

k) Remuneration Report (continued)

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
- 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	- Remuneration consultants were engaged to evaluate our proposed remuneration levels and structure for FY22 in the context of McPherson's business strategy, stakeholder feedback, community expectations, relevant market standards and COVID-19 challenges - 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	- Reviews, evaluates and makes recommendations to the Board in relation to the following remuneration matters: ✓ 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	- 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.

In October 2021, the People & Culture Committee engaged Guerdon Associates (Guerdon) to review its executive incentive framework and Managing Director and Senior Leadership Team remuneration benchmarking and to provide observations on executive short-term and long-term incentive plan design. Guerdon was paid \$76,085 for these services.

Guerdon has confirmed that any remuneration observations have been made free from undue influence by members of the Company's key management personnel.

The following arrangements were made to ensure that the remuneration observations were free from undue influence:

- Guerdon was engaged by, and reported directly to, the Chair of the People and Culture Committee. The agreement for the provision of remuneration consulting services was executed by the Chair of the People and Culture Committee under delegated authority on behalf of the Board;
- The report containing the remuneration observations was provided by Guerdon directly to the Chair of the People and Culture Committee; and
- Guerdon was permitted to speak to management throughout the engagement to understand Company processes, practices and other business issues and obtain management perspectives. However, Guerdon was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration observations.

The Board is satisfied that the observations were made free from undue influence from any members of the key management personnel.

Directors' Report (continued)

k) Remuneration Report (continued)

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

Remuneration Governance Framework (continued)

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

	FY22	FY21 ²	FY20	FY19	FY18
Profit/(loss) after tax for the year from continuing operations (\$'000)	333	(5,371)	6,062	13,721	11,359
Profit after tax from continuing operations, excluding significant items (\$'000)	6,963	6,184	16,336	13,721	12,944
Basic earnings/(loss) per share (cents) from continuing operations	0.3	(4.4)	5.7	13.0	10.9
Basic earnings per share (cents), excluding significant items from continuing operations	5.4	5.1	15.3	13.0	12.4
Dividends declared for the relevant financial year (\$'000)	6,733	6,420	11,783	12,688	8,866
Dividend payout ratio as a percentage of profit/(loss) after tax for the year from continuing operations (%)	n/m ¹	n/m ¹	194.4	92.5	78.1
Dividend payout ratio as a percentage of profit from continuing operations excluding significant items (%)	96.7	103.8	72.1	92.5	68.5
Increase/(decrease) in period end share price (%)	(40.5)	(60.3)	129.9	(29.3)	31.2
Total KMP incentives as percentage of profit/(loss) from continuing operations for the year (%)	—	—	11.5	2.7	5.8
Total KMP incentives as percentage of profit after tax from continuing operations excluding significant items (%)	—	—	4.3	2.7	5.1

1. Ratio not considered meaningful.

2. FY21 numbers have been restated; refer to note 1(b) of the Consolidated Financial Statements.

Executive remuneration

The Remuneration Framework for FY22 is summarised in the following table:

Element	Purpose	Performance Metrics	Potential Value
Fixed Remuneration including superannuation and benefits¹	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.	Managing Director Growth in underlying profit before tax (PBT), together with pre-determined significant role specific objectives.	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

1. Under the terms of the Managing Director's employment agreement, \$100,000 of fixed annual remuneration was to be delivered in the form of annual performance rights. Because of the related resolution to grant these rights to the Managing Director not being passed at the 2021 AGM, the Board determined to increase the cash element of the Managing Director's remuneration by \$100,000 for the first full year of his employment. In August 2022 the Board determined to make that change permanent.

Directors' Report (continued)

k) Remuneration Report (continued)

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

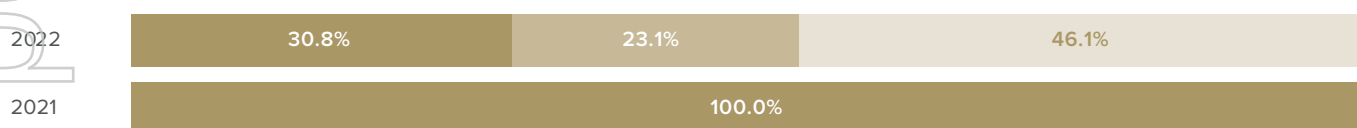
Executive remuneration (continued)

Element	Purpose	Performance Metrics	Potential Value
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. ¹	Managing Director i. Commencement Rights – vesting contingent on remaining as the Managing Director until 24 September 2024. ii. High Level Performance Rights (HLP) – 50% of vesting determined with reference to EPS CAGR and 50% with reference to TSR CAGR outcomes, each over three years. iii. Exceptional Level Performance Rights (ELP) – vesting determined with reference to the TSR CAGR outcome over four years.	Managing Director¹ i. Commencement Rights – cash payment determined as McPherson's closing share price on the Payment Date multiplied by 200,000. ii. High Level Performance Rights (HLP) – 100% of fixed remuneration. Cash payment determined as McPherson's closing share price on the Payment Date multiplied by a performance outcome ranging between zero and 624,000. iii. Exceptional Level Performance Rights (ELP) – 50% of fixed remuneration. Cash payment determined as McPherson's closing share price on the Payment Date multiplied by a performance outcome ranging between zero and 312,000.
		Other senior executives 50% of vesting determined with reference to EPS CAGR and 50% with reference to TSR CAGR, each over three years.	Other senior executives 40% of fixed remuneration.

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 Performance Metrics and Potential Value information set out above.

The graph below shows the structure of the FY22 remuneration opportunity mix for KMP compared to FY21. The LTI is an unvested calculation in accordance with AASB 2 *Share-based Payment* and reflects the impact of the share-based payment transaction on the profit and loss statement.

Managing Director



Other Senior Executives



● Fixed Remuneration ● STI ● LTI

Directors' Report (continued)

k) Remuneration Report (continued)

Elements of remuneration

Short-term incentives (STI)

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

Assessment	Eligibility for a cash bonus is made by reference to actual performance outcomes when these are known following the conclusion of the financial year. Short-term incentives are normally payable in late August based on audited results following the end of the financial year to which the incentive relates.
STI financial target	Based on the Company's profit performance in 2022, 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 underlying PBT outcomes in 1H22 and 2H22 were below 90% of budget PBT.
STI non-financial target	As the Company's underlying PBT outcomes in 1H22 and 2H22 were 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 FY22, no such additional short-term cash bonuses were paid to senior executives.

Specific STI performance metrics and outcomes for each KMP in FY22 are summarised in the table below:

KMP	Metrics	Potential STI Outcomes	FY22 Outcomes
Managing Director	1H22 Financial metrics	Financial	Financial
	i) If <90% of prior year underlying PBT with reference to Group budget PBT (1H22): No STI payable	Pro-rata to target 52.5% of fixed remuneration	Nil
	ii) If between 90% and 110% of prior year underlying PBT with reference to Group budget PBT (1H22): Pro-rata STI payable	Non-Financial Up to 22.5% of fixed remuneration ¹	Non-Financial Nil
Chief Financial Officer and Company Secretary	iii) If 110% and above prior year underlying PBT with reference to Group budget PBT (1H22): Maximum target STI payable	Financial Pro-rata to target 35% of fixed remuneration	Financial Nil
	2H22 Financial metrics	Non-Financial Up to 15% of fixed remuneration ¹	Non-Financial Nil
Commercial Director ANZ ²	i) If <90% of prior year underlying PBT with reference to Group revised forecast profit before tax (RFP) (2H22): No STI payable	Financial	Financial
	ii) If between 90% and 110% of prior year underlying PBT with reference to Group RFP (2H22): Pro-rata STI payable	Pro-rata to target 35% of fixed remuneration	Nil
	iii) If 110% and above prior year underlying PBT with reference to Group RFP (2H22): Maximum target STI payable	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.

2. Ms. Pirozzi resigned on 31 December 2021.

Directors' Report (continued)

k) Remuneration Report (continued)

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 shareholder 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 55 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	- 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	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 then current facts and circumstances: - 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.

Managing Director remuneration and Performance Rights in FY22

As announced to the ASX on 17 December 2021, an alternative cash based LTI arrangement will operate for Mr. Peck's Commencement, HLP and ELP rights for FY22 because of the AGM resolution relating to these rights not being passed at the 2021 AGM. Considering the Company's obligations under Mr. Peck's employment agreement, the Board determined that the following would apply:

- Noting that Commencement Performance Rights are not being issued, a deferred cash payment will be made to Mr. Peck on 22 November 2024, being 200,000 (the number of rights referred to in the relevant AGM resolution) multiplied by the Company's share price at that time, and conditional upon Mr. Peck remaining as CEO and Managing Director until that date.
- Mr. Peck's fixed annual remuneration of \$675,000 was to be delivered as \$575,000 cash and \$100,000 as performance rights over ordinary shares. Noting that no annual performance rights will be issued to Mr. Peck, his annual cash remuneration would be increased by \$100,000 (inclusive of superannuation) from \$575,000 to \$675,000 per annum for the first year of his employment (from 1 April 2021 to 31 March 2022). The Board has subsequently determined to make this change permanent with effect from 1 April 2022.
- Noting that no long-term incentive (LTI) performance rights will be issued to Mr. Peck in FY22, a cash based LTI arrangement would operate for him for FY22 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. If the performance criteria are satisfied, 50% of any LTI payment made to Mr. Peck at the conclusion of the relevant performance period (to reflect the related tax obligation) is required to be applied in acquiring MCP shares on market, and then held by him subject to ongoing divestment restrictions.

The cash based LTI arrangements are included in the Remuneration Report where relevant on a basis consistent with AASB 2 *Share-based Payment* disclosure requirements.

Further information regarding share-based compensation in the form of Performance Rights is contained later in the Remuneration Report on page 55.

Voting and comments made at the Company's 2021 Annual General Meeting (AGM)

Of the total votes cast in relation to the adoption of the 2021 Remuneration Report by shareholders participating in the AGM and by proxy, 77.73% voted in favour of the resolution. Several general questions relating to remuneration and the 2021 Remuneration Report were asked by shareholders at the 2021 AGM, which were appropriately responded to by the Board Chair and other Non-Executive Directors at the meeting.

Directors' Report (continued)

k) Remuneration Report (continued)

Details of remuneration

Amounts of remuneration

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

	Short-term Benefits				Post-employment Benefits	Long-term Benefits	Share-based Payments	Total
	Cash Salary & Fees ¹ \$	Cash Bonus \$	Non-monetary Benefits ² \$	Termination Benefits \$	Super-annuation \$	Long Service Leave \$	Performance Rights \$	
2022								
Directors of McPherson's Limited								
Ari Mervis (Board Chair) ³	143,984	—	—	—	14,398	—	—	158,382
G.A. Cubbin (former Board Chair) ⁴	58,091	—	—	—	6,591	—	—	64,682
G.W. Peck (Managing Director)	681,087	—	—	—	27,500	9,095	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. Thornton ⁵	45,841	—	—	—	4,584	—	—	50,425
Total Directors' Remuneration 2022	1,184,359	—	—	—	78,608	9,095	230,180	1,502,242
Other Group Key Management Personnel								
P. Witheridge	387,538	—	—	—	26,400	5,889	36,617	456,444
L. Pirozzi ⁶	164,592	—	—	236,346	13,750	(17,271)	(30,486)	366,931
Total Other Key Management Personnel Remuneration 2022	552,130	—	—	236,346	40,150	(11,382)	6,131	823,375
Total Remuneration 2022 – Group	1,736,489	—	—	236,346	118,758	(2,287)	236,311	2,325,617

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

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

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

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

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

6. Ms Pirozzi resigned on 31 December 2021.

Directors' Report (continued)

k) Remuneration Report (continued)

Details of remuneration (continued)

Amounts of remuneration (continued)

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

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

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

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

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

5. Mr McAllister resigned effective 9 December 2020.

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

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 (continued)

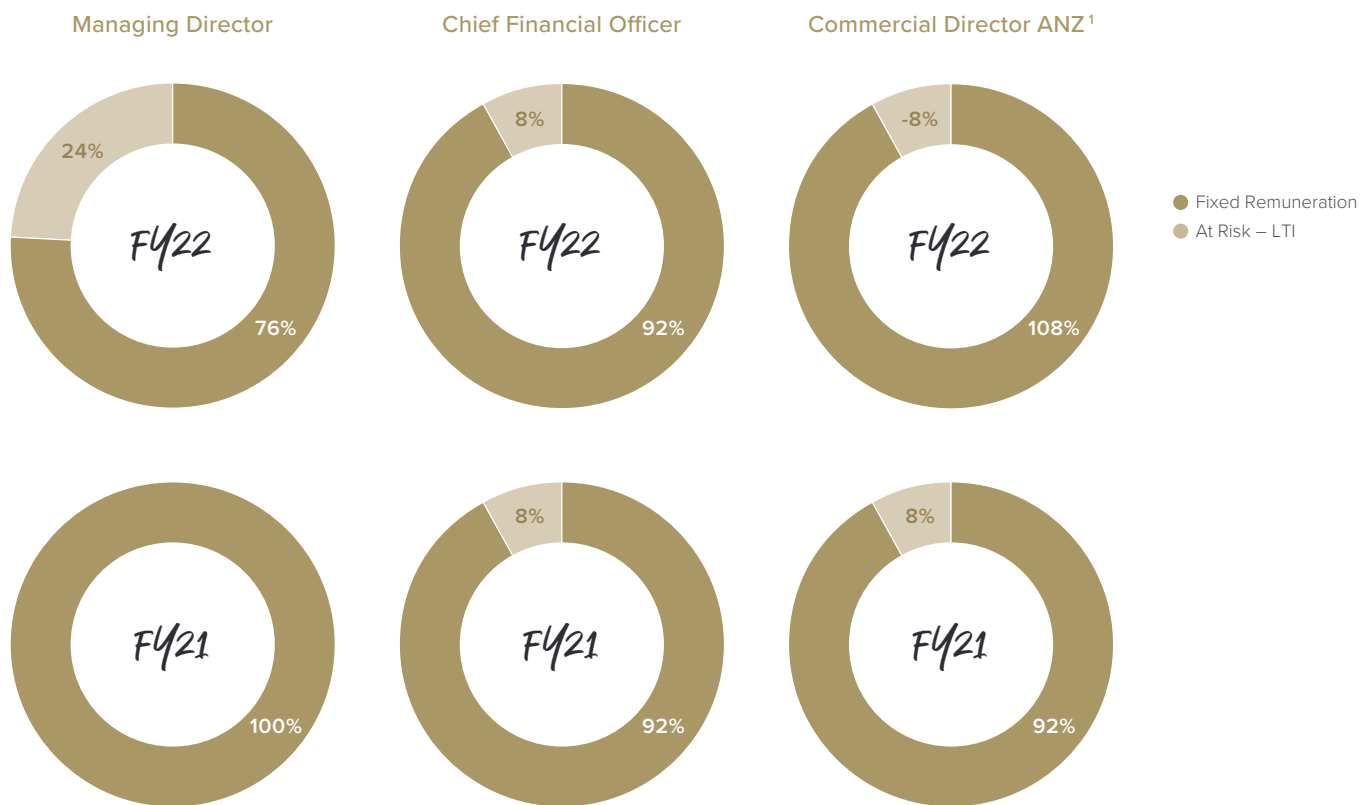
k) Remuneration Report (continued)

Details of remuneration (continued)

Relative proportions of remuneration

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

Long-term incentives relating to Performance Rights form part of the remuneration amounts as disclosed in this report. There were no other option related amounts included in the current or prior year remuneration. The table below illustrates the relative proportions of remuneration paid out in FY22 and FY21, except in relation to the LTI element which is determined in accordance with AASB 2 *Share-based Payment*. There were no STI granted in FY22 and FY21 as disclosed above.



1. Ms. Pirozzi resigned on 31 December 2021.

Directors' Report (continued)

k) Remuneration Report (continued)

Details of remuneration (continued)

Performance based remuneration granted and forfeited during the year

The following table shows for each KMP how much of their FY22 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%	703,680	—	—
Other key management personnel of the Group						
P. Witheridge	197,825	—	100%	97,090	—	82,058
L. Pirozzi	175,000	—	100%	—	—	264,051

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 Performance Metrics and Potential Value information set out above.

Summary of KMP Remuneration and KPI Objectives for FY22

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
G. Peck¹ Managing Director	\$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.	Rights granted on commencement of role Commencement Rights¹ – 200,000 performance rights contingent on remaining as the Managing Director until 24 September 2024. Rights to be granted as a long-term incentive on an annual basis with up to a maximum of 150% of fixed remuneration: i) High Level Performance Rights (HLP)¹ – 100% of fixed remuneration with 50% of the maximum opportunity subject to a target EPS CAGR hurdle of at least 15.0% and 50% subject to a TSR CAGR hurdle of at least 15.0%, each over a three year performance period. ii) Exceptional Level Performance Rights (ELP) – 50% of fixed remuneration with the maximum opportunity subject to a TSR CAGR hurdle of at least 20.0% measured over a four year performance period.	- Deliver the McPhersons Financial Plan. - Reposition the key business partnerships to support the Strategic Operations Review including: a) redefining international partnerships arrangements including China; b) simplifying joint venture arrangements; and c) evaluate and manage major account strategic alliance opportunities. - Support the successful integration of the Health Division and deliver the commercial outcomes in the budget. - Reposition the Executive Team that provides organisation clarity, accountability and potential for performance. - Provide succession potential. - Ensure the environment is inclusive and supportive of cross functional support. - Launch a renewed environmental, social and governance (ESG) program.

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 LTI information set out above.

Directors' Report (continued)

k) Remuneration Report (continued)

Details of remuneration (continued)

Summary of KMP Remuneration and KPI Objectives for FY22 (continued)

KMP	Fixed Remuneration	STI	LTI	KPI Objectives
P. Witheridge Chief Financial Officer and Company Secretary	\$395,650 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 under the Performance Rights Plan equal to 40% of fixed remuneration with: i) 50% of the maximum opportunity subject to a target EPS CAGR hurdle of at least 15.0%, measured over a three year performance period; and ii) 50% subject to an absolute TSR CAGR hurdle of at least 15.0% per annum, measured on a compound basis over a three year performance period.	• Provide key Financial and IT input into execution of the May 2021 Operational Review Outcomes. Adapt the operating model to support the new organization structure, including reporting lines and the nature of information to provide decision support for the new management structure. • Explore various capital management initiatives with the assistance of external advisors, for presentation to the Board. • Continue to be responsive to requests for information from the external investor, lender and stakeholder community with deep involvement in corporate communications to achieve this objective. • Provide stable and consistent leadership and direction to the Finance and IT teams directly, but also more broadly across the organization as the MCP team. • Ensure IT development tasks and operations tasks are well prioritized, executed and communicated to the Senior Leadership Team.
L. Pirozzi Commercial Director ANZ	\$320,000 including super \$30,000 motor vehicle allowance	Not applicable (resigned in December 2021)	Rights under the Performance Rights Plan equal to 40% of fixed remuneration (including motor vehicle allowance) with: i) 50% of the maximum opportunity subject to a target EPS CAGR hurdle of at least 15.0%, measured over a three year performance period; and ii) 50% subject to an absolute TSR CAGR hurdle of at least 15.0% per annum, measured over a three year performance period.	Not applicable (resigned in December 2021)

Directors' Report (continued)

k) Remuneration Report (continued)

Contractual arrangements for executive KMP

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

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

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

Name	Term of agreement	Fixed remuneration including superannuation and motor vehicle benefits ¹	Termination
G. Peck Managing Director	Ongoing	\$675,000 ²	Contract may be terminated on 6 months' notice by either the Company or executive.
P. Witheridge Chief Financial Officer and Company Secretary	Ongoing	\$395,650	Contract may be terminated on 6 months' notice by the Company or on 3 months' notice by the executive.
L. Pirozzi Commercial Director ANZ	Resigned on 31 December 2021	\$350,000	Contract may be terminated on 1 months' notice by either the Company or executive.

1. The annual fixed remuneration amounts quoted are as at 30 June 2022. They are reviewed annually by the People and Culture Committee.

2. Including \$100,000 compensation in lieu of FY22 Annual Performance Rights not granted in accordance with Mr. Peck's employment contract.

Directors' Report (continued)

k) Remuneration Report (continued)

Share-based compensation

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 Managing Director (Grant Peck) for 2023 will be sought, under ASX Listing Rule 10.14, at the Company's Annual General Meeting in November 2022.

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 ¹	Managing Director	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
Performance Rights	Chief Financial Officer (and Company Secretary)	2020	First 50% of Rights Zero Rights vesting at +5.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +10.0% of underlying EPS CAGR Remaining 50% of Rights 25% of Rights vesting at +10.0% TSR CAGR, then pro rata to 100% of Rights vesting at +15.0% TSR CAGR	3 years
			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
		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
			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
		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
ELP ¹	Managing Director	2022	30% of Rights vesting at +20.0% TSR CAGR, then pro rata to 100% of Rights vesting at +25.0% 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.

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 50% 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.

Directors' Report (continued)

k) Remuneration Report (continued)

Share-based compensation (continued)

Performance Rights (continued)

Details of LTI awards on issue at 30 June 2022 are set out in the following table:

Name	Date of grant	Financial year in which rights may vest ²	Number of rights granted	Fair value of rights at grant date ³	Face value of rights at grant date ⁴	Number of rights vested during the year	Vested %	Number of rights forfeited during the year	Forfeited %
G. Peck¹									
Commencement	24/09/2021	2025	200,000	\$192,000	\$216,560	—	—	—	—
HLP	24/09/2021	2025	624,000	\$414,960	\$675,000	—	—	—	—
ELP	24/09/2021	2026	312,000	\$96,720	\$337,500	—	—	—	—
P. Witheridge									
	25/09/2018	2022	89,000	\$82,058	\$146,258	—	—	89,000	100
	25/09/2019	2023	72,000	\$133,920	\$158,260	—	—	—	—
	25/09/2020	2024	50,000	\$102,750	\$158,260	—	—	—	—
	24/09/2021	2025	146,000	\$97,090	\$158,260	—	—	—	—
L. Pirozzi⁵									
	25/09/2018	2022	78,000	\$71,916	\$128,070	—	—	78,000	100
	25/09/2019	2023	58,000	\$107,880	\$128,070	—	—	58,000	100
	25/09/2020	2024	41,000	\$84,255	\$128,070	—	—	41,000	100

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 is being referred to on a notional basis in the LTI award information set out above.

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

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

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

5. Resigned on 31 December 2021, all rights have been forfeited.

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

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

Directors' Report (continued)

k) Remuneration Report (continued)

Share-based compensation (continued)

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 the 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	—	200,000
HLP	—	624,000	—	—	624,000	—	624,000
ELP	—	312,000	—	—	312,000	—	312,000
P. Witheridge							
Performance Rights	211,000	146,000	—	(89,000)	268,000	—	268,000
L. Pirozzi							
Performance Rights	177,000	—	—	(177,000)	—	—	—

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 on a notional basis in the Performance Rights information set out above.

Shares held by key management personnel

Name	Balance at the start of the year	Other non-remuneration changes during the year	Balance at the end of the period
Directors of McPherson's Limited			
A. Mervis	150,000	—	150,000
G.W. Peck	55,400	—	55,400
G.A. Cubbin ¹	283,953	—	283,953 ¹
J.M. McKellar	7,069	4,464	11,533
G.R. Pearce	655,939	—	655,939
A.J. Cook	15,500	—	15,500
H. Thornton	—	—	—
Other key management personnel			
P. Witheridge	60,000	—	60,000
L. Pirozzi	—	—	—

1. Mr. Cubbin resigned as a Non-Executive Director on 21 February 2022. His share balance at the end of the period refers to shares held on the date of resignation.

Directors' Report (continued)

k) Remuneration Report (continued)

Share-based compensation (continued)

Employee share schemes

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

Eligibility	All employees, excluding the Managing Director and other members of the Senior Leadership Team who are entitled to a long term incentive, who have been continuously employed by the Company for a period of at least one year, at the discretion of the Board of Directors. Employees may elect not to participate in the scheme.
Shares	Granted up to \$1,000 worth of fully paid ordinary shares in the Company annually for no cash consideration. The number of shares to be issued to participants in the scheme is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the week ending on 11 August 2022. The shares are to be issued to employees shortly after that date (2021: 11 August 2021).
Conditions attached to the shares	- The shares granted in 2021 vested on 30 July 2022, provided the employee remains employed to the Company. - Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment. - In all other respects, the shares rank equally with other fully-paid ordinary shares on issue.

The People and Culture Committee assess the ongoing operation of the scheme on an annual basis. This assessment in relation to FY23 is currently in progress.

	24 August 2022	12 August 2021
Number of shares issued under the Employee Share Scheme	274,224	244,640

The number of shares to be issued to participants of the FY22 Employee Share Scheme was calculated based on the \$1,000 offer amount divided by the weighted average price of \$0.845 (2021: \$1.136) at which the Company's shares were traded on the Australian Securities Exchange during the week ending on 11 August 2022. The number of participants eligible for the FY22 Employee Share Scheme at 30 June 2022 is 232.

Directors' Report (continued)

k) Remuneration Report (continued)

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. The Board asked shareholders to approve such increase as a consequence of an increase in the number of non-executive Directors from four to five, to provide capacity for the fees to be increased if required, and to provide the flexibility to appoint an additional Director if it was appropriate to do so. Including superannuation guarantee contributions made on their behalf by the Company, non-executive Director remuneration for the year ended 30 June 2022 totalled \$554,381 (2021: \$507,893).
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.

Directors' Report (continued)

k) Remuneration Report (continued)

Non-Executive Directors arrangements (continued)

The following fees applied for the year ended 30 June 2022 and continue to apply at the date of this report:

	2022	2021
Base fees		
Board Chair	\$158,667	\$157,946
Other Non-Executive Directors	\$83,303	\$82,924
Additional fees		
Audit Committee (Chair)	\$10,582	\$10,534
Audit Committee (Member) ¹	\$5,215	\$6,577
People and Culture Committee (Chair)	\$10,582	\$10,534
People and Culture Committee (Member) ²	\$5,215	—
Risk and Compliance Committee (Chair) ²	\$10,582	—
Risk and Compliance Committee (Member) ²	\$5,215	—

1. Additional fees paid to members of the Audit Committee were reduced from \$6,607 to \$5,215 per annum (each inclusive of superannuation) with effect from 22 February 2022.

2. These fees commenced with effect from 22 February 2022.

The amounts shown above for 2022 are inclusive of company superannuation guarantee contributions (at 10.0%) payable on behalf of Directors on the base fees and additional fees. The amounts shown for 2021 have been restated to include company superannuation guarantee contributions (at 9.50%) payable on behalf of Directors.

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	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. 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 or previous financial year other than those disclosed above, and relating to remuneration and to transactions concerning performance rights and shares, and the following transactions: - The Company previously held 10,000,000 shares in Aware Environmental Limited (AEL), which represented 6.8% of the capital of AEL. During the year ended 30 June 2022 an agreement was entered into for the sale of 100% of these shares, which completed on 13 July 2022. On completion the shares held by MCP in AEL were transferred to Heat Holdings Pty Ltd, and MCP was issued with 25,755 convertible notes in Wellness and Beauty Solutions Ltd (ASX: WNB). - On 20 October 2021, Mr. Geoffrey Pearce resigned as a Director of AEL. However, he was a substantial shareholder of AEL as at 30 June 2022 and up until the sale of 100% of his shares which completed on 13 July 2022. - In FY22, the Company made trade purchases of \$4,681,000 from AEL (FY21: \$9,122,000). - The above transactions were conducted on normal commercial arm's length terms and entered into in order to provide a more robust and reliable basis of skin care product supply to McPherson's.

Directors' Report (continued)

l) Shares under option

At the date of this report, there were no unissued ordinary shares of McPherson's under vested performance rights.

Shares issued on the exercise of options

Shares of McPherson's have been issued from the exercise of vested performance rights or options during the year ended 30 June 2022 and up to the date of this report are as follows:

Date options granted	Date shares issued	Number of shares issued
21 November 2016	21 June 2022	803,000

m) Indemnification and insurance of officers

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

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

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

n) Environmental regulation

The 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 (continued)

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:

	2022 \$	2021 \$
Other services		
PricewaterhouseCoopers Australian firm		
Working capital review	37,500	38,256
Inventory observation for Global Therapeutics acquisition	—	15,512
Total remuneration for other services	37,500	53,768
Total remuneration for non-audit services	37,500	53,768

A copy of the auditor's independence as required under section 307C of the *Corporations Act 2001* is set out on page 63.

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

25 August 2022



Grant Peck

CEO & MD

25 August 2022

Auditor's Independence Declaration



Auditor's Independence Declaration

As lead auditor for the audit of McPherson's Limited for the year ended 30 June 2022, 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
25 August 2022

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Directors' Declaration

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

- a) the financial statements and notes as set out on pages 70 to 121 and the remuneration report on pages 40 to 60 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 2022 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 31 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 31.

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

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

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



ARI MERVIS

Chair

25 August 2022



Grant Peck

CEO & MD

25 August 2022



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 2022 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 2022
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

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

Independence

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

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.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999

Independent Auditor's Report (continued)



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 \$0.53 million, which represents approximately 5% of the Group's profit before tax adjusted for items disclosed in Note 3.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We adjusted for the items disclosed in Note 3 as they are unusual or infrequently occurring items impacting profit before tax.
- We utilised a 5% 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 and Risk Committee.



Key audit matter

How our audit addressed the key audit matter

Goodwill (\$33.6 million) and brand names (\$53.8 million) (Refer to note 15)

The carrying value of goodwill and brand names was a key audit matter due to its size and the judgements involved in estimating the cash flow forecasts used to determine the recoverable amount for each Cash Generating Unit (CGU).

We performed the following procedures, amongst others:

- Developed an understanding of and evaluated the Group's processes and controls relating to annual impairment tests of the CGUs in light of the requirements of Australian Accounting Standards.
- Assessed whether the Group's determination of CGUs was consistent with our understanding of the nature of the Group's operations.
- Assessed whether the CGUs appropriately included all assets, liabilities and cash flows.
- Compared the Group's forecast cash flows in the models to Board approved budgets and historical actual results.
- Assessed the Group's historical ability to forecast cash flows by comparing budgets to reported actual results for the past three years.
- Together with PwC valuation experts, assessed the valuation methodology and mathematical accuracy of the models and compared the discount rate, growth rate and royalty rate assumptions to historical company data and market observable inputs.
- Evaluated the adequacy of the disclosures made in the financial report, in light of the requirements of Australian Accounting Standards.

Inventory valuation (\$45.5 million) (Refer to note 10)

As the Group values inventory at the lower of cost and net realisable value estimates are required to determine the recoverable amount. These estimates are based on the Group's projection of future sales volumes and prices.

Given the level of judgement involved in calculating the provision and the magnitude of inventory recognised on the Group's consolidated balance sheet this was a key audit matter.

We performed the following procedures, amongst others:

- Developed an understanding of and evaluated the Group's processes and controls relating to the estimation of the provision, including consistency of approach with prior years.
- Tested the mathematical accuracy and completeness of the provision against inventory on hand.
- Assessed the inventory provision estimate, in particular the identification and valuation of inventory considered to be at risk. For a sample of inventory we:
 - compared inventory on hand to forecast sales;
 - compared forecast sales to recent performance; and
 - evaluated management's assessment of provisioning required.
- Evaluated the adequacy of the disclosures made in the financial report, in light of the requirements of Australian Accounting Standards.

Independent Auditor's Report (continued)



Other assets (\$ 9.7 million) **(Refer to note 12)**

On 24 March 2022, McPherson's Limited entered into a series of commercial agreements with Chemist Warehouse Group ("CWG") establishing a strategic alliance.

As part of the agreement, 14.1 million of McPherson's Limited shares were issued to CWG on 1 July 2022. This was accounted for in accordance with AASB 2 *Share-Based Payments* and \$9.7 million was recognised in the share based payment reserve based on the fair value of the shares as at grant date with a corresponding amount in Other Assets.

This was a key audit matter given the judgements involved in valuing the shares issued and estimating the cash flow forecasts used to determine the allocation of the share value within Other Assets.

We performed the following procedures, amongst others:

- Understood the terms of all the agreements entered into.
- Assessed the competence, capabilities and objectivity of management's expert in valuing the shares.
- Together with PwC valuation experts, assessed the assumptions used by management's expert in determining the fair value of the shares at the grant date.
- Evaluated the allocation of value between contract assets and prepayments.
- Evaluated the adequacy 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 2022, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

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

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

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 40 to 60 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of McPherson's Limited for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

A stylized signature of PricewaterhouseCoopers in a cursive script.

PricewaterhouseCoopers

A stylized signature of Paddy Carney in a cursive script.

Paddy Carney
Partner

Sydney
25 August 2022

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2022

	Note	2022 \$'000	Restated ¹ 2021 \$'000
Revenue			
Sales revenue		214,003	200,495
Other income		157	274
Total revenue and other income		214,160	200,769
Expenses			
Materials and consumables		(123,203)	(113,017)
Employee costs		(39,102)	(38,535)
Advertising and promotions		(22,355)	(20,520)
Cartage and freight		(6,823)	(6,035)
Third party warehousing		(2,026)	(2,477)
Rental expenses		(502)	(348)
Depreciation		(5,110)	(4,458)
Amortisation		(564)	(1,095)
Other expenses		(13,443)	(11,238)
Net favourable impact of the exit of the joint ventures	3	707	—
Impairment of investments in joint ventures, shareholder loans and receivables	3	—	(5,001)
Takeover response advisory fees	3	—	(1,941)
Acquisition costs in relation to the Global Therapeutics business	3,17	—	(930)
Release of contingent consideration	3	—	1,829
Operating profit / (loss) before finance costs and income tax		1,739	(2,997)
Interest income	19	31	12
Borrowing costs	19	(1,175)	(1,199)
Net finance costs		(1,144)	(1,187)
Share of net loss of joint ventures accounted for using the equity method		(159)	(749)
Profit / (loss) before income tax		436	(4,933)
Income tax expense	6	(103)	(438)
Profit / (loss) for the year after tax		333	(5,371)
Profit / (loss) for the year		333	(5,371)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in fair value of cash flow hedges	23	2,410	(382)
Exchange differences on translation of foreign operations	23	60	(139)
Income tax benefit relating to these items	23	(716)	121
<i>Items that will not be reclassified to profit or loss</i>			
Changes in fair value of equity instruments at fair value through other comprehensive income	2(e),23	—	(6,000)
Other comprehensive income / (expense) for the year		1,754	(6,400)
Total comprehensive income / (expense) for the year		2,087	(11,771)

Earnings per share		Cents	Restated ¹ Cents
Basic earnings / (loss) per share	28	0.3	(4.4)
Diluted earnings / (loss) per share	28	0.2	(4.4)

1. Refer to note 1(b)

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

Consolidated Balance Sheet

as at 30 June 2022

	Note	2022 \$'000	Restated ¹ 2021 \$'000
Current assets			
Cash and cash equivalents	8	13,139	7,354
Trade and other receivables	9	29,759	37,625
Inventories	10	45,542	48,100
Derivative financial instruments	11	2,077	16
Current tax asset		1,398	1,080
Other assets	12	850	—
Total current assets		92,765	94,175
Non-current assets			
Property, plant and equipment	13	6,544	6,439
Right-of-use assets	14	13,138	3,456
Intangible assets	15	90,464	90,068
Deferred tax assets	16	278	275
Investment in joint ventures		—	111
Other assets	12	8,845	—
Total non-current assets		119,269	100,349
Total assets		212,034	194,524
Current liabilities			
Trade and other payables	18	43,030	42,043
Borrowings	19	14,887	—
Lease liabilities		3,571	4,360
Provisions	20	7,397	6,953
Derivative financial instruments	11	674	992
Current tax liabilities		66	48
Total current liabilities		69,625	54,396
Non-current liabilities			
Other payables	18	435	—
Borrowings	19	—	15,773
Lease liabilities		10,922	796
Provisions	20	974	881
Deferred tax liabilities	21	9,272	8,034
Derivative financial instruments	11	—	20
Total non-current liabilities		21,603	25,504
Total liabilities		91,228	79,900
Net assets		120,806	114,624
Equity			
Contributed equity	22	207,244	206,363
Reserves	23(a)	8,543	(803)
Accumulated losses	23(b)	(94,981)	(90,936)
Total equity		120,806	114,624

1. Refer to note 1(b)

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 2022

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Restated¹ balance at 30 June 2021		206,363	(803)	(90,936)	114,624
Profit for the year		—	—	333	333
Other comprehensive income		—	1,754	—	1,754
Total comprehensive income		—	1,754	333	2,087
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	23	—	(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

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020		159,444	4,342	(73,557)	90,229
Restated loss for the year ¹		—	—	(5,371)	(5,371)
Other comprehensive income		—	(6,400)	—	(6,400)
Total comprehensive income		—	(6,400)	(5,371)	(11,771)
Transactions with shareholders					
Shares issued, net of transaction costs and tax	22	46,672	—	—	46,672
Dividends provided for or paid	4	—	—	(12,008)	(12,008)
Shares vested and transferred to employees	22	247	(247)	—	—
Share-based payment transactions with employees	24	—	1,502	—	1,502
Total transactions with shareholders		46,919	1,255	(12,008)	36,166
Restated¹ balance at 30 June 2021		206,363	(803)	(90,936)	114,624

1. Refer to note 1(b)

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 2022

	Note	2022 \$'000	2021 \$'000
Cash flows from operating activities			
Receipts from customers, inclusive of GST		242,238	232,524
Payments to suppliers and employees, inclusive of GST		(223,056)	(222,495)
Interest received		31	42
Interest and borrowing costs paid		(779)	(1,086)
Income taxes received / (paid)		141	(6,291)
Net cash inflows from operating activities	32	18,575	2,694
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(1,924)	(1,885)
Payments for purchase of other intangible assets		(331)	(641)
Payments for acquisition of Global Therapeutics	17	—	(27,542)
Payments for acquisition costs	17	—	(877)
Loans to joint ventures		—	(856)
Net cash (outflows) from investing activities		(2,255)	(31,801)
Cash flows from financing activities			
Proceeds from issuance of shares	22	—	45,912
Share issue transaction costs	22	(3)	(1,349)
Proceeds from borrowings		46,616	95,563
Repayment of borrowings		(47,500)	(96,168)
Repayment of lease liabilities		(3,918)	(4,238)
Dividends paid		(5,789)	(10,303)
Net cash (outflows) / inflows from financing activities		(10,594)	29,417
Net increase in cash held		5,726	310
Cash at beginning of financial year		7,354	7,149
Effects of exchange rate changes		59	(105)
Cash held at end of financial year	8	13,139	7,354

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

Notes to 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 and amended standards adopted by the Group

The Group has elected to adopt the following amendments early:

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments, and
- AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Notes to the Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Restatement of prior year

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

The Group's accounting policy has historically been to capitalise all costs related to cloud computing arrangements as intangible assets in the Consolidated Balance Sheet. The adoption of this IFRIC agenda decision results in a reclassification of these intangible assets to either a prepaid asset in the Consolidated Balance Sheet and/or recognition as an expense in the Consolidated Statement of Comprehensive Income, impacting both the current and prior periods presented.

The Group's preliminary assessment at 30 June 2021 indicated that the impact of this IFRIC agenda decision was not material, and therefore the Group did not adopt this IFRIC agenda decision in the year ended 30 June 2021.

The Group finalised its assessment in FY22 and restated the 30 June 2021 financial statements as follows:

	30 June 2021 \$'000	Increase / (Decrease) \$'000	Restated 30 June 2021 \$'000
Consolidated statement of financial position (extract)			
Intangible assets	90,540	(472)	90,068
Deferred tax liabilities	(8,176)	142	(8,034)
Net assets	114,954	(330)	114,624
Accumulated losses	(90,606)	(330)	(90,936)
Total equity	114,954	(330)	114,624
Consolidated statement of comprehensive income (extract)			
	30 June 2021 \$'000	Increase / (Decrease) \$'000	Restated 30 June 2021 \$'000
Amortisation	(623)	(472)	(1,095)
Operating profit before net finance costs and income tax	(2,526)	(472)	(2,997)
Loss before income tax	(4,461)	(472)	(4,933)
Income tax expense	(580)	142	(438)
Loss after tax	(5,041)	(330)	(5,371)
Other comprehensive income / (expense)	(6,400)	—	(6,400)
Total comprehensive income / (expense)	(11,441)	(330)	(11,771)
Earnings per share (extract)			
	June 2021 Cents	Increase / (Decrease) Cents	Restated June 2021 Cents
Basic loss per share	(4.2)	(0.2)	(4.4)
Diluted loss per share	(4.1)	(0.3)	(4.4)

Notes to the Consolidated Financial Statements (continued)

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 the Consolidated Financial Statements (continued)

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.

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 the Consolidated Financial Statements (continued)

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 25 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 the Consolidated Financial Statements (continued)

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.

Notes to the Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Investments and other financial assets

i) Classification

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

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

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

ii) Financial assets at fair value through profit or loss

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

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

iii) Financial assets at fair value through other comprehensive income

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

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.

Notes to the Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Derivatives and hedging activities (continued)

Cash flow hedges that qualify for hedge accounting (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Intangible assets

ij) Goodwill

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

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

ii) Brand names

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

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

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

iii) Customer relationships

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

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

iv) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that 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.

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.

Notes to the Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 28).

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 28).

Notes to the Consolidated Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 34 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.

Valuation of share based payment

The fair value of share based consideration issued as part of the strategic alliance with Chemist Warehouse Group is determined using the capitalisation of earnings method market valuation techniques, based on forecasts and market conditions existing at acquisition date.

Allocation of valuation of contract assets and inventory prepayments

The share based consideration issued as part of the strategic alliance with Chemist Warehouse Group has been allocated to contract assets and inventory prepayments based on the relative proportion of value of each contract. The judgements involved include estimates of future cash flows, assumptions over the exercise of extension options and assessing relevant discount rates. In particular, the valuation assumes that the requisite performance thresholds will be met for the Exclusive Distribution Arrangement to be renewed on a brand-by-brand basis for each of the three additional five-year terms from 1 July 2027.

Amortisation of contract assets and inventory prepayment

The pattern of amortisation of contract assets and inventory prepayments has been determined by estimating the projected future sales and purchases associated with the agreements over the life of the agreements.

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 the Consolidated Financial Statements (continued)

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	2022 \$'000	2021 \$'000
Financial assets			
Cash and cash equivalents	8	13,139	7,354
Trade and other receivables	9	29,759	37,625
Derivative financial instruments	11	2,077	16
Total financial assets		44,975	44,995
Financial liabilities			
Trade and other payables	18	43,465	42,043
Borrowings	19	14,887	15,773
Lease liabilities		14,494	5,156
Derivative financial instruments	11	674	1,012
Total financial liabilities		73,520	63,984

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

Notes to the Consolidated Financial Statements (continued)

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% (2021: 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 2022 was 0.7109 (2021: 0.7273).

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

Group sensitivity

Based on the financial instruments held at 30 June 2022, 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 \$1,302,588 higher / \$(952,534) lower (2021: \$1,738,953 higher / \$(1,204,045) 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 2022, the Group's debt at variable rates are:

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

Notes to the Consolidated Financial Statements (continued)

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 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 2022 is determined as follows. The expected credit losses below also incorporate forward looking information.

2022 \$'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	15,358	9,760	146	36	19	15	25,334
Loss allowance provision	—	—	—	—	—	—	—
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Credit risk concentration

Five (2021: three) external customers, which individually amount to 10% or more of the Group's closing receivables, represent \$18,438,478 (2021: \$21,053,927). These debtor balances are in relation to the ANZ and Health CBUs.

d) Liquidity risk

	2022 \$'000	2021 \$'000
Financing Arrangements		
The Group has access to the following undrawn borrowing facilities at the end of the reporting period:		
<i>Unused at balance date at floating rate</i>		
Bank loans expiring within one year	35,000	—
Bank loans expiring beyond one year	—	34,000
Total undrawn borrowing facilities	35,000	34,000

Refer to Note 19 for further information regarding the financing facilities available to the Group.

Notes to the Consolidated Financial Statements (continued)

2. FINANCIAL RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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 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	6,111	15,253	14,493
Total non-derivative financial liabilities	61,936	2,958	3,036	6,111	74,041	72,845
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 / (assets)	(1,403)	—	—	—	(1,403)	(1,403)
	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 2021						
Non-derivatives						
Payables	42,043	—	—	—	42,043	42,043
Borrowings	176	16,176	—	—	16,352	15,773
Lease liabilities	4,204	999	391	53	5,647	5,156
Total non-derivative financial liabilities	46,423	17,175	391	53	64,042	62,972
Derivatives						
Forward foreign exchange contracts – inflow	(38,476)	—	—	—	(38,476)	(38,476)
Forward foreign exchange contracts – outflow	38,721	—	—	—	38,721	38,721
	245	—	—	—	245	245
Foreign currency options	709	—	—	—	709	709
Interest rate contracts	34	31	—	—	65	65
Total derivative financial liabilities	988	31	—	—	1,019	1,019

Notes to the Consolidated Financial Statements (continued)

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 2022 and 30 June 2021 on a recurring basis:

	30 June 2022				30 June 2021			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements								
Financial assets at fair value								
Derivative financial instruments	—	2,077	—	2,077	—	16	—	16
Total financial assets at fair value	—	2,077	—	2,077	—	16	—	16

	30 June 2022				30 June 2021			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Recurring fair value measurements								
Financial liabilities at fair value								
Derivative financial instruments	—	(674)	—	(674)	—	(1,012)	—	(1,012)
Total financial liabilities at fair value	—	(674)	—	(674)	—	(1,012)	—	(1,012)

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 2022.

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 the Consolidated Financial Statements (continued)

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 2022	Expense / (Income) \$'000	Tax (benefit) / expense \$'000	Total \$'000
Dr. LeWinn's inventory provision	9,434	(2,831)	6,603
Net favourable impact from the exit of the joint ventures	(707)	(242)	(949)
Regulatory review expenses	358	(107)	251
Chemist Warehouse Strategic Alliance establishment expenses	566	(170)	396
Restructuring expenses	577	(248)	329
Total material items	10,228	(3,598)	6,630

30 June 2021	Expense / (Income) \$'000	Tax (benefit) / expense \$'000	Total \$'000
Inventory provision for hand sanitisers	6,734	(1,927)	4,807
Impairment of investments in joint ventures, shareholder loans and receivables	5,001	(168)	4,833
Takeover response advisory fees	1,941	(583)	1,358
Acquisition costs in relation to Fusion Health and Oriental Botanicals brands	930	(16)	914
Employee costs for the resignation of the Managing Director ¹	1,517	(228)	1,289
Due diligence costs on other acquisition targets	262	(78)	184
Release of contingent consideration for the My Kart joint venture	(1,829)	—	(1,829)
Total material items	14,556	(3,000)	11,556

1. FY21 includes \$756,924 non-cash expense for unvested performance rights retained upon resignation on 9 December 2020, in compliance with AASB 2 Share-based Payment.

4. DIVIDENDS

Details of dividends declared during the year ended 30 June 2022 are as follows:

	2022 \$'000	2021 \$'000
Final 30 June 2021 dividend of 1.5 cents per fully paid share (2020: 7.0 cents per fully paid share) fully franked at 30%	1,930	7,514
Interim 2022 ordinary dividend of 3.0 cents per fully paid share (2021: 3.5 cents per fully paid share) fully franked at 30%	3,859	4,494
Total dividends	5,789	12,008

Dividends not recognised at year end

Since the 2022 financial year end, the Directors have declared a fully franked final dividend of 2.0 cents per fully paid share (2021: 1.5 cents per fully paid share). The aggregate amount of the dividend to be paid on 23 September 2022 but not recognised as a liability at year end.

	2,873	1,926
Franked Dividends		
Franked dividends paid after 30 June 2022 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 2022.		
Franking credits available for subsequent financial years based on a tax rate of 30%	19,266	22,165

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.

Notes to the Consolidated Financial Statements *(continued)*

5. SEGMENT INFORMATION

Historically, segment information reported to the Group's Chief Operating Decision Maker (CEO & Managing Director) was presented by geographic locations (Australia, New Zealand, Rest of the World) for the purpose of resource allocation and assessment of segment performance.

Subsequent to the Operational Review initiatives, the Group established three Commercial Business Units (CBU) in order to drive focused accountability and profitability:

- Australia and New Zealand CBU;
- Health CBU; and
- International CBU.

In the year ended 30 June 2022, the Group's financial information reported to Group's Chief Operating Decision Maker was presented by CBU, therefore management determined that the reportable segments under AASB 8 are Australia and New Zealand, Health and International.

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 \$107,206,645 (2021: \$96,182,119) were derived from three (2021: three) external customers, which individually amount to 10% or more of the Group's revenue. These revenues were attributable to the ANZ and Health CBUs.

Notes to the Consolidated Financial Statements (continued)

5. SEGMENT INFORMATION (continued)

Segment results

	Australia and New Zealand \$'000	Health \$'000	International \$'000	Corporate \$'000	Consolidated \$'000
30 June 2022					
Sales to external customers	187,716	18,367	7,920	—	214,003
Inter-segment sales	787	—	—	(787)	—
Total sales revenue	188,503	18,367	7,920	(787)	214,003
Other income	94	—	63	—	157
Total segment revenue and other income (excluding interest)	188,597	18,367	7,983	(787)	214,160
EBITDA / (LBITDA) before material items	21,103	3,440	(2,282)	(4,779)	17,482
Depreciation and amortisation expense	(4,980)	(61)	(295)	(338)	(5,674)
Segment EBIT / (LBIT) before material items	16,123	3,379	(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	15,546	3,379	(12,012)	(5,333)	1,580
Borrowing costs					(1,144)
Profit before income tax					436
Income tax expense					(103)
Profit after income tax					333
	Australia and New Zealand \$'000	Health \$'000	International \$'000	Corporate \$'000	Consolidated \$'000
Restated 30 June 2021					
Sales to external customers	178,369	9,704	12,422	—	200,495
Inter-segment sales	771	—	—	(771)	—
Total sales revenue	179,140	9,704	12,422	(771)	200,495
Other income	150	—	123	1	274
Total segment revenue and other income (excluding interest)	179,290	9,704	12,545	(770)	200,769
EBITDA before material items	21,410	1,633	(1,360)	(5,320)	16,363
Depreciation and amortisation expense	(4,887)	(111)	(358)	(197)	(5,553)
Segment EBIT / (LBIT) before material items	16,523	1,522	(1,718)	(5,517)	10,810
Material items before tax and borrowing costs	(6,734)	—	—	(7,822)	(14,556)
Segment EBIT / LBIT including material items	9,789	1,522	(1,718)	(13,339)	(3,746)
Borrowing costs					(1,187)
Loss before income tax					(4,933)
Income tax expense					(438)
Loss after income tax					(5,371)

Notes to the Consolidated Financial Statements (continued)

6. INCOME TAX

a) Income tax expense

	Note	2022 \$'000	Restated ¹ 2021 \$'000
Current tax		(24)	1,031
Deferred tax		169	(708)
(Over) / under provision in prior years		(42)	115
Total income tax expense		103	438
Deferred income tax (credit) / expense included in income tax expense comprises:			
Decrease / (increase) in deferred tax assets	16	210	(670)
Decrease / (increase) in deferred tax liabilities	21	(41)	(38)
Total deferred tax		169	(708)

1. Refer to note 1(b)

b) Numerical reconciliation of income tax expense

	2022 \$'000	2021 \$'000
Total operating profit / (loss) before tax	436	(4,933)
Prima facie income tax expense / (benefit) at 30%	131	(1,480)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Tax rate differences in overseas entities	(58)	(19)
Share-based payments expense	40	368
(Over) / under provision in prior periods	(42)	115
Impairment of investments in joint ventures	—	1,253
Net favourable impact of joint venture exit	(352)	(549)
Share of loss from investments in joint ventures	48	225
Acquisition costs	—	263
Other	336	262
Income tax expense	103	438

c) Amounts recognised directly in equity

	Note	2022 \$'000	2021 \$'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly credited to equity:			
Deferred tax assets	16	—	(397)

d) Tax expense relating to items of other comprehensive income

	Note	2022 \$'000	2021 \$'000
Cash flow hedges	16,23	(716)	121

Notes to the Consolidated Financial Statements (continued)

7. KEY MANAGEMENT PERSONNEL

	2022 \$	2021 \$
Key management personnel compensation		
Short-term employee benefits	1,972,835	2,331,227
Post-employment benefits	118,758	120,859
Long-term benefits	(2,287)	22,106
Share-based payments ¹	236,311	1,085,370
Total key management personnel compensation	2,325,617	3,559,562

1. FY21 includes \$756,924 non-cash expense for unvested performance rights retained upon the resignation of the former Managing Director, as disclosed in the "Final Director's Interest Notice" provided to the ASX on 14 December 2020, in compliance with AASB 2 *Share-based Payment*.

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

Loans to key management personnel

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

Other transactions with key management personnel

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

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

- The Group's owns 10,000,000 shares in Aware Environmental Limited (AEL), which represents 6.8% of the capital of AEL at 30 June 2022. On 13 July 2022, the shares held by MCP in Aware were transferred to Heat Holdings Pty Ltd and was issued with 25,755 convertible notes in Wellness and Beauty Solutions Ltd (ASX: WNB).
- On 20 October 2021, Mr. Geoffrey Pearce resigned as a Director of AEL. However, he was a substantial shareholder of AEL as at 30 June 2022 and up until the sale of 100% of his shares which completed on 13 July 2022.
- In FY22, the Group made trade purchases of \$4,681,000 with AEL (FY21: \$9,122,000).
- The above transactions were conducted on normal commercial arm's length terms and entered into in order to provide a more robust and reliable basis of skin care product supply to McPherson's.

8. CASH AND CASH EQUIVALENTS

	2022 \$'000	2021 \$'000
Cash on hand	4	6
Cash at bank and on deposit (at call)	13,135	7,348
Total cash and cash equivalents	13,139	7,354

Notes to the Consolidated Financial Statements (continued)

9. TRADE AND OTHER RECEIVABLES

	2022 \$'000	2021 \$'000
Trade receivables	25,335	33,196
Provision for impairment	—	(8)
Trade receivables, net of impairment	25,335	33,188
Other receivables and prepayments	4,424	4,437
Total trade and other receivables	29,759	37,625

	2022 \$'000	2021 \$'000
Movements in the provision for impairment of trade receivables		
Balance at 1 July	(8)	(99)
Reversal of provisions for impairment	7	74
Net receivables written off as uncollectible	1	17
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.

	2022 \$'000	2021 \$'000
Neither past due nor impaired	15,359	24,638
Past due, but not impaired:		
• Less than 30 days	9,760	7,347
• 30 to 59 days	146	300
• 60 to 89 days	36	374
• 90 to 119 days	19	429
• 120 days or more	15	108
Gross carrying amount	25,335	33,196
Provision for impairment	—	(8)
Net carrying amount	25,335	33,188

Credit risk concentration

Five (2021: three) external customers represent \$18,438,478 (2021: \$21,053,927), which individually amount to 10% or more of the Group's trade receivables. These trade receivables are in relation to the ANZ and Health CBUs.

Notes to the Consolidated Financial Statements (continued)

10. INVENTORIES

	2022 \$'000	2021 \$'000
Raw materials	5,343	5,575
Finished goods	54,227	50,693
Total inventories	59,570	56,268
Provision for inventory obsolescence	(14,028)	(8,168)
Total inventories, net of obsolescence provision	45,542	48,100

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

The inventory provision expense for FY22 is \$11.0 million (2021: \$9.0 million) and is captured in the materials and consumables expenses of the consolidated statement of comprehensive income. The increase in inventory provision expense is mainly due to the \$9.4 million provision for Dr. LeWinn's excess stock made in FY22, disclosed in Note 3 *Material items*.

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2022 \$'000	2021 \$'000
Current derivative financial instrument assets		
Forward foreign exchange contracts – cash flow hedges	1,713	16
Interest rate contracts – cash flow hedges	364	—
Total current derivative financial instrument assets	2,077	16
Current derivative financial instrument liabilities		
Interest rate swaps – cash flow hedges	—	22
Forward foreign exchange contracts – cash flow hedges	—	261
Foreign currency options – cash flow hedges	674	709
Total current derivative financial instrument liabilities	674	992
Non-current liabilities		
Interest rate swaps – cash flow hedges	—	20

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 2022 to June 2023.

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

Interest rate swaps – cash flow hedges

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

Notes to the Consolidated Financial Statements (continued)

12. OTHER ASSETS

	2022 \$'000	2021 \$'000
Preferred Brand Agreement – current	489	—
Preferred Brand Agreement – non-current	1,899	—
Total contract asset	2,388	—
Exclusive Distribution Agreement – current	361	—
Exclusive Distribution Agreement – non-current	6,946	—
Total inventory prepayment	7,307	—

On 24 March 2022, McPherson's Limited entered into a series of agreements with Chemist Warehouse Group ("CWG") establishing a strategic alliance with CWG to deliver material commercial and operational benefits to McPherson's in exchange for an issue of 14.2 million McPherson's shares.

Under these agreements:

- McPherson's is appointed as the exclusive long-term distributor of a select portfolio of Chemist Warehouse-owned or controlled health and beauty brands outside of the Chemist Warehouse Network in Australia and New Zealand ("Exclusive Distribution Agreement", "EDA"), and
- McPherson's is recognised as a preferred supplier to CWG and will increase the portfolio of McPherson's brands which CWG currently ranges in Australia and New Zealand, to include Moosehead, Maseur, Fusion Health, Stratton, Sugarbaby and Happy Flora ("Preferred Brand Agreement", "PBA").

In compliance with AASB 2 *Share-based Payment*, the transactions are recognised at the fair value of the shares on grant date being 24 March 2022. Using the capitalisation of earnings approach, the fair value of the shares issued is valued at \$9.7 million and recognised in the share based payment reserve with a corresponding \$7.3 million contract asset for the EDA (current: \$0.4 million and non-current: \$6.9 million) and \$2.4 million contract asset for the PBA (current: \$0.5 million and non-current: \$1.9 million).

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. Based on estimated sales projections, management has determined it is reasonably certain that the performance thresholds will be met, and the extension options will be exercised. The asset will be amortised to the income statement over the 20-year term of the agreement as an increase in cost of goods sold corresponding to the run rate of profitability from the agreement.

The PBA contract asset will be 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 will be amortised over the initial five-year term.

Notes to the Consolidated Financial Statements (continued)

13. PROPERTY, PLANT AND EQUIPMENT

	2022 \$'000	2021 \$'000
Leasehold improvements		
At cost	332	335
Accumulated depreciation	(322)	(321)
Total leasehold improvements	10	14
Plant and equipment		
At cost	40,609	38,849
Accumulated depreciation	(34,075)	(32,424)
Total plant and equipment	6,534	6,425
Total property, plant and equipment	6,544	6,439

a) Reconciliations

	Note	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Carrying amount at 30 June 2020		18	6,241	6,259
Additions		—	1,885	1,885
Acquisition of business	17	—	75	75
Depreciation expense		(4)	(1,839)	(1,843)
Foreign currency exchange differences		—	63	63
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

b) Non-current assets pledged as security

Refer to Note 19 for information on non-current assets pledged as security by the parent entity and certain controlled entities.

Notes to the Consolidated Financial Statements (continued)

14. LEASES

a) Right-of-use assets

	2022 \$'000	2021 \$'000
Buildings	11,107	2,332
Equipment and Vehicles	2,031	1,124
Total right-of-use assets	13,138	3,456

Additions to right-of-use assets in 2022 were \$12,601,481 (2021: \$1,251,501).

b) Amounts recognised in the statement of comprehensive income

	2022 \$'000	2021 \$'000
Depreciation charge of right-of-use assets		
Buildings	(2,675)	(1,970)
Equipment and Vehicles	(657)	(645)
Total depreciation charge of right-of-use assets	(3,332)	(2,615)
Expenses relating to short-term and low value leases (included in Rental Expense)	(502)	(348)
Interest expense (included in Borrowing Costs)	(281)	(284)
Cash outflow for leases including lease interests	(3,918)	(4,521)

Notes to the Consolidated Financial Statements (continued)

15. INTANGIBLE ASSETS

	Goodwill \$'000	Brand Names \$'000	Customer Relationships \$'000	Other Intangibles \$'000	Total \$'000
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
Restated¹ at 30 June 2021					
Cost	33,566	53,713	2,700	8,225	98,204
Accumulated amortisation and impairment	—	—	(197)	(7,939)	(8,136)
Net book amount	33,566	53,713	2,503	286	90,068

1. Refer to note 1(b)

Reconciliations

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

	Goodwill \$'000	Brand Names \$'000	Customer Relationships \$'000	Other Intangibles \$'000	Total \$'000
Carrying amount at 30 June 2020	15,757	48,310	—	646	64,713
Additions	—	103	—	538	641
Acquisition of business (Note 17)	17,887	5,300	2,700	—	25,887
Amortisation charge	—	—	(197)	(898)	(1,095)
Foreign currency exchange differences	(78)	—	—	—	(78)
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

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 the Consolidated Financial Statements (continued)

15. INTANGIBLE ASSETS (continued)

Impairment Testing

Goodwill

In the prior period, the Group's goodwill was allocated to the Australian cash generating unit (CGU).

As disclosed in Note 5, the Group determined that its reportable segments are Australia and New Zealand, Health and International. AASB 136 *Impairment of Assets* requires that a CGU cannot be larger than an operating segment, and therefore, the Group assessed that it includes three CGUs (Australia and New Zealand, Health and International), and allocated goodwill to the following CGUs:

	2022 \$'000	2021 \$'000
FY21 CGU		
Australia	n/a	33,552
FY22 CGU		
Australia and New Zealand (ANZ)	15,754	n/a
Health	17,887	n/a
Total	33,641	33,552

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 Board approved 2023 budget covering a one year period. Cash flows beyond the year one period are extrapolated using estimated growth rates from the Board approved Group's 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 2022				30 June 2021			
	5-year EBIT Growth Rates	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate	Estimated Growth Rates Year 2 Onwards	Terminal Growth Rate	Post-Tax Discount Rate	Pre-Tax Discount Rate
Australia	n/a	n/a	n/a	n/a	2.0%	2.0%	10.0%	13.7%
ANZ	1.4% - 34.5%	2.5%	12.0%	16.2%	n/a	n/a	n/a	n/a
Health	11.8% - 53.5%	2.5%	12.0%	16.2%	n/a	n/a	n/a	n/a

In addition to the above, it is noted that the five year cash flow projection is a key assumption within the value-in-use calculation. The cash flow projections used for the five year cash flows are based on the Board approved 2023 budget and the Board approved Group's five-year plan. The 2023 budget reflects the Board's expectation of cash flows for the Australian CGU driven by profit optimisation initiatives arising from the McPherson's Operational Review and the Chemist Warehouse Strategic Alliance. At 30 June 2022, 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 \$60,715,737 and Health CGU is \$32,600,631 (30 June 2021: Australian CGU surplus is \$3,364,441).

Impairment charge

No goodwill impairment charge was recognised in 2022 (2021: nil).

Notes to the Consolidated Financial Statements (continued)

15. INTANGIBLE ASSETS (continued)

Impact of possible changes in key assumptions

If the five-year projected EBIT were 5.0% below the current estimates used in the value-in-use calculation, no impairment charge would arise.

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

Brand names

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

The fair value less costs to sell calculations are prepared using the relief from royalty analysis of the future net contribution expected to be generated by the brand, which is based on the Board approved budget covering a one year period. Cash flows beyond the projected period are extrapolated using estimated growth rates from the Group's Board approved five-year plan. In performing the relief from royalty analysis the Group has applied a post-tax discount rate to discount the forecast future attributable post-tax cash flows.

The carrying values of the purchased brand names are:

	2022 \$'000	2021 \$'000
Mutix	20,166	20,166
Manicare	9,366	9,366
Dr. LeWinn's	5,719	5,719
Maseur	5,061	5,061
Fusion Health	4,200	4,200
Swisspers	4,156	4,156
Other brand names	5,175	5,045
Total brand names	53,843	53,713

The assumptions used in the brand name relief from royalty analysis, are set out below:

	2022	2021
Estimated annual growth rates	(32.7)% - 104.6%	1.0% - 7.8%
Royalty relief rates	2.0% - 10.0%	—
Terminal year growth rates	1.0% - 3.0%	1.0% - 3.0%
Post-tax discount rates	10.0% - 20.0%	10.0%
Pre-tax discount rates	13.2% - 26.3%	13.7%

In addition to the above, it is noted that the five-year cash flow projection is a key assumption within the relief from royalty analysis.

At 30 June 2022, the total carrying value of brand names was \$53,843,000 (2021: \$53,713,000). The relief from royalty analysis for these brand names exceeded their carrying values.

Impairment charge

No brand name impairment charge was recognised in 2022 (2021: nil).

Impact of possible changes in key assumptions

If the year one projected sales by brand were 10.0% below the current estimates used in the royalty relief calculations, an impairment charge of \$1.8m would arise with reference to the current mid-point valuation.

If the royalty relief percentage were to drop by 10.0% below the current assumptions used in the royalty relief calculations, an impairment charge of \$1.8m would arise with reference to the current mid-point valuation.

Notes to the Consolidated Financial Statements (continued)

16. DEFERRED TAX ASSETS

	Note	2022 \$'000	Restated ¹ 2021 \$'000
The balance comprises temporary differences attributable to:			
Employee benefits		2,050	2,025
Depreciation		487	953
Net of right-of-use assets and lease liabilities		405	506
		2,942	3,484
Other			
Takeover advisory fees		348	516
Unutilised tax losses		230	189
Transaction costs associated with shares issuance		274	317
Cash flow hedges		(412)	304
Other		619	526
Subtotal other temporary differences		1,059	1,852
Total temporary differences		4,001	5,336
Set-off of deferred tax liabilities pursuant to set-off provisions	21	(3,723)	(5,061)
Net deferred tax assets		278	275

1. Refer to note 1(b)

Movements	Note	Leases ¹ \$'000	Employee Benefits \$'000	Depreciation \$'000	Other \$'000	Total \$'000
Closing balance at 30 June 2020		968	1,665	954	622	4,209
Charged to profit or loss	6	(462)	237	242	653	670
Acquisition on business combination		—	123	—	—	123
Charged to equity		—	—	—	397	397
Charged to other comprehensive income		—	—	—	121	121
Under/(over) provision in prior years		—	—	(243)	57	(186)
Foreign currency exchange differences		—	—	—	2	2
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

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

	2022 \$'000	2021 \$'000
Deferred tax assets to be recovered within 12 months	3,248	4,094
Deferred tax assets to be recovered after more than 12 months	753	1,242
Total deferred tax assets	4,001	5,336

Notes to the Consolidated Financial Statements (continued)

17. BUSINESS COMBINATION

Summary of acquisition

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

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

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

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

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

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

i) **Acquired trade receivables**

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

ii) **Revenue and profit contribution**

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

iii) **Acquisition-related costs**

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

Notes to the Consolidated Financial Statements (continued)

18. TRADE AND OTHER PAYABLES

	2022 \$'000	2021 \$'000
Trade payables	24,352	18,841
Customer contract liabilities	13,969	14,969
Other payables	4,709	8,233
Total current trade and other payables	43,030	42,043
Other payables	435	—
Total non-current trade and other payables	435	—
Total trade and other payables	43,465	42,043

19. BORROWINGS

	2022 \$'000	2021 \$'000
Bank loan – secured	15,000	—
Debt issue costs	(113)	—
Total current borrowings	14,887	—
Bank loan – secured	—	16,000
Debt issue costs	—	(227)
Total non-current borrowings	—	15,773
Total borrowings	14,887	15,773

	2022 \$'000	2021 \$'000
Interest income		
Interest income	31	12
Borrowing costs		
Borrowing costs applicable to debt facilities	(1,060)	(1,086)
Amortisation of refinancing costs	(115)	(113)
Total borrowing costs	(1,175)	(1,199)
Net borrowing costs	(1,144)	(1,187)

Notes to the Consolidated Financial Statements (continued)

19. BORROWINGS (continued)

The Group's three-year facility, denominated in Australian dollars, has a facility limit of \$47.5 million (2021: \$47.5 million) and expires in June 2023. This facility comprises three tranches:

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

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

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

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

As at 30 June 2022, 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 (2021: \$5 million).

Security for borrowings

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

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

Assets pledged as security

The following assets are pledged as security:

	2022 \$'000	2021 \$'000
Property, plant and equipment	6,500	6,388
Intangible assets	88,983	89,148
Total non-current assets pledged as security	95,483	95,536
Cash	11,649	6,275
Receivables	28,610	36,293
Inventories	45,261	47,763
Total current assets pledged as security	85,520	90,331
Total assets pledged as security	181,003	185,867

Notes to the Consolidated Financial Statements (continued)

20. PROVISIONS

	2022 \$'000	2021 \$'000
Provisions – current		
Employee entitlements	7,012	6,657
Employee incentives	385	296
Total current provisions	7,397	6,953
Provisions – non-current		
Employee entitlements	744	881
Cash based performance rights	230	—
	974	881

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:

	2022 \$'000	2021 \$'000
Carrying amount at 1 July	296	2,372
Additional provisions charged to profit or loss	656	782
Unused amounts reversed to profit or loss	(1)	(40)
Payments	(566)	(2,817)
Foreign currency exchange differences	—	(1)
Carrying amount at 30 June	385	296

Notes to the Consolidated Financial Statements (continued)

21. DEFERRED TAX LIABILITIES

The balance comprises temporary differences attributable to:

	Note	2022 \$'000	Restated ¹ 2021 \$'000
Brand names		12,284	12,284
Customer relationships		650	810
Other		61	1
Total temporary differences		12,995	13,095
Set-off of deferred tax asset pursuant to set-off provisions	16	(3,723)	(5,061)
Net deferred tax liabilities		9,272	8,034
Deferred tax liabilities to be settled within 12 months		713	1
Deferred tax liabilities to be settled after more than 12 months		12,282	13,094
Total temporary differences		12,995	13,095

1. Refer to note 1(b)

Movements

	Note	Brand names \$'000	Customer relationships \$'000	Other \$'000	Total \$'000
Closing balance at 30 June 2020		10,694	—	44	10,738
Debited/(Credited) to profit or loss	6	—	—	(38)	(38)
Acquisition of business		1,590	810	—	2,400
Charged to other comprehensive income	6	—	—	—	—
Under provision in prior years		—	—	—	—
Foreign exchange		—	—	(5)	(5)
Closing balance at 30 June 2021		12,284	810	1	13,095
Debited/(Credited) to profit or loss	6	—	(101)	60	(41)
Charged to other comprehensive income	6	—	—	—	—
Under provision in prior years		—	(59)	—	(59)
Foreign exchange		—	—	(1)	(1)
Closing balance at 30 June 2022		12,284	650	60	12,994

Notes to the Consolidated Financial Statements (continued)

22. CONTRIBUTED EQUITY

		2022 \$'000	2021 \$'000	
Issued and paid up capital				
129,451,100 fully paid ordinary shares (June 2021: 128,403,460)		207,244	206,363	
Movements in ordinary share capital				
Date	Details	Number of Shares	Price \$	\$'000
30 June 2020	Closing Balance	107,264,580		159,444
	Employee shares scheme	88,288	2.80	247
	Dividend Reinvestment Plan for the 30 June 2020 final dividend	594,715	2.87	1,706
	Institutional Placement	16,090,606	2.27	36,526
	Share Purchase Plan	4,365,271	2.15	9,385
	Transaction costs associated with share issuances			(1,349)
	Tax effect of share issue transaction costs recognised directly in equity			404
30 June 2021	Closing Balance	128,403,460		206,363
	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

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 24.

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	2022 \$'000	2021 \$'000
Total borrowings	19	14,887	15,773
Less: Cash assets	8	(13,139)	(7,354)
Net bank debt, excluding lease liabilities		1,748	8,419
Total equity		120,806	114,624
Total capital		122,554	123,043
Gearing ratio		1.4%	6.8%

Notes to the Consolidated Financial Statements (continued)

23. RESERVES AND ACCUMULATED LOSSES

a) Reserves

	Note	2022 \$'000	2021 \$'000
Hedging reserve – cash flow hedges		1,112	(582)
Share-based payments reserve		11,472	3,880
Foreign currency translation reserve		1,959	1,899
Financial assets at FVOCI reserve		(6,000)	(6,000)
Total reserves		8,543	(803)
Cash flow hedge reserve			
Balance 1 July		(582)	(321)
Revaluation – gross		1,413	(997)
Deferred tax	16	(412)	304
Transfer to cost of sales – gross		997	615
Deferred tax	16	(304)	(183)
Total cash flow hedge reserve		1,112	(582)
Share-based payments reserve			
Balance at 1 July		3,880	2,625
Share-based payment expenses	24	141	1,502
Employee share scheme issued during the year		(881)	(247)
Chemist Warehouse Alliance share based payment		9,743	—
Transfer of cancelled rights to retained earnings		(1,411)	—
Total share-based payments reserve		11,472	3,880
Foreign currency translation reserve			
Balance 1 July		1,899	2,038
Currency translation differences arising during the year		60	(139)
Total foreign currency translation reserve		1,959	1,899
Financial assets at FVOCI reserve			
Balance 1 July		(6,000)	—
Revaluation – gross		—	(6,000)
Deferred tax		—	—
Total financial assets at FVOCI reserve		(6,000)	(6,000)

b) Accumulated losses

	Note	2022 \$'000	Restated ¹ 2021 \$'000
Balance 1 July		(90,936)	(73,557)
Profit/(Loss) after tax		333	(5,041)
Transfers from Share Based Reserve	23(a)	1,411	—
Restatement		—	(330)
Dividends provided for or paid	4	(5,789)	(12,008)
Total accumulated losses		(94,981)	(90,936)

1. Refer to note 1(b)

Notes to the Consolidated Financial Statements (continued)

23. RESERVES AND ACCUMULATED LOSSES (continued)

c) Nature and purpose of reserves

Cash flow hedge reserve

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

Share-based payments reserve

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

Foreign currency translation reserve

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

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

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

24. 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 page 55 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 fixed remuneration in the form of HLP and ELP performance rights
- Other senior executives – 40% of 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 then 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 the Consolidated Financial Statements (continued)

24. 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 ¹	Managing Director	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
Performance Rights	Chief Financial Officer (and Company Secretary)	2020	First 50% of Rights Zero Rights vesting at +5.0% of underlying EPS CAGR, then pro rata to 100% of Rights vesting at +10.0% of underlying EPS CAGR	3 years
			Remaining 50% of Rights 25% of Rights vesting at +10.0% TSR CAGR, then pro rata to 100% of Rights vesting at +15.0% TSR CAGR	3 years
		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
ELP ¹	Managing Director	2022	30% of Rights vesting at +20.0% TSR CAGR, then pro rata to 100% of Rights vesting at +25.0% TSR CAGR	4 years

1. 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 Commencement, HLP and 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.

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

	2022		2021	
	Average fair value at grant date	Number of rights	Average fair value at grant date	Number of rights
As at 1 July	\$1.50	3,838,000	\$1.43	3,739,000
Granted during the year	\$0.68	1,606,000	\$1.89	628,000
Redeemed during the year		—		—
Lapsed during the year		(3,567,000)		(529,000)
As at 30 June	\$1.26	1,877,000	\$1.50	3,838,000
Vested and exercisable		—		803,000

Notes to the Consolidated Financial Statements (continued)

24. SHARE-BASED PAYMENTS (continued)

a) Employee Performance Rights Plan (continued)

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

Grant date	Vesting date	Number of rights	
		30 June 2022	30 June 2021
21 November 2016	25 September 2019	—	213,000
21 November 2016	25 September 2020	—	590,000
21 September 2017	22 September 2021	—	436,000
25 September 2018	25 September 2021	—	696,000
25 September 2018	25 September 2022	—	398,000
25 September 2019	26 September 2022	154,000	422,000
18 November 2019	26 September 2022	—	182,000
18 November 2019	25 September 2023	—	273,000
25 September 2020	26 September 2023	117,000	437,000
25 September 2020	26 September 2024	—	191,000
24 September 2021	24 September 2024	470,000	—
24 September 2021	24 September 2024	200,000	—
24 September 2021	24 September 2024	624,000	—
24 September 2021	25 September 2025	312,000	—
Total		1,877,000	3,838,000

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

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

Notes to the Consolidated Financial Statements (continued)

24. SHARE-BASED PAYMENTS (continued)

b) Employee Share Scheme

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

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

Under the scheme, eligible employees may be granted up to \$1,000 worth of fully paid ordinary shares in the Group annually for no cash consideration. The shares granted in FY21 vested on 30 July 2022 provided the employee remains employed by the Group. The number of shares issued to participants in the scheme is the offer amount divided by the weighted average price at which the Company's shares are traded on the Australian Securities Exchange during the week ending on 11 August 2022.

Applications under the scheme are accepted at the discretion of the Board of Directors. Shares issued under the scheme may not be sold until the earlier of three years after issue or cessation of employment. In all other respects the shares rank equally with other fully-paid ordinary shares on issue.

The People and Culture Committee assess the ongoing operation of the scheme on an annual basis. This assessment in relation to FY23 is currently in progress.

	24 August 2022	12 August 2021
Number of shares issued under the Employee Share Scheme	274,224	244,640

The number of shares to be issued to participants of the FY22 Employee Share Scheme was calculated based on the \$1,000 offer amount divided by the weighted average price of \$0.845 (2021: \$1.136) at which the Company's shares were traded on the Australian Securities Exchange during the week ending on 11 August 2022. The number of participants eligible for the FY22 Employee Share Scheme at 30 June 2022 is 232.

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:

	2022 \$'000	2021 \$'000
Performance Rights issued under the Employee Performance Rights plan ¹	126	1,228
Shares estimated to be issued under the Employee Share Scheme	245	274
Total expenses	371	1,502

¹ FY21 includes \$756,924 non-cash expense for unvested performance rights retained upon the resignation of the former Managing Director as disclosed in the "Final Director's Interest Notice" provided to the ASX on 14 December 2020, in compliance with AASB 2 *Share-based Payment*.

Notes to the Consolidated Financial Statements (continued)

25. CONTRACTUAL COMMITMENTS FOR EXPENDITURE

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

a) Capital commitments

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

	2022 \$'000	2021 \$'000
Due not later than one year	955	808

26. CONTINGENT LIABILITIES

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

27. 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:

	2022 \$	2021 \$
a) PricewaterhouseCoopers Australia		
<i>i) Audit and other assurance services</i>		
Audit and review of financial statements	453,147	375,247
Total remuneration for audit and other assurance services	453,147	375,247
<i>ii) Other services</i>		
Working capital review	37,500	38,256
Inventory observation for Global Therapeutics acquisition	—	15,512
Total remuneration for other services	37,500	53,768
Total remuneration of PricewaterhouseCoopers Australia	490,647	429,015
b) Network firms of PricewaterhouseCoopers Australia		
<i>i) Audit and other assurance services</i>		
Audit and review of financial statements	—	—
Total remuneration for audit and other assurance services	—	—
Total remuneration of PricewaterhouseCoopers Australia	490,647	429,015
c) Non PricewaterhouseCoopers audit firms		
<i>i) Audit and other assurance services</i>		
Audit and review of financial statements	29,091	28,502
Total remuneration of non-PricewaterhouseCoopers audit firms	29,091	28,502
Total remuneration of auditors	519,738	457,517

Notes to the Consolidated Financial Statements (continued)

28. EARNINGS PER SHARE

	2022 Cents	Restated ¹ 2021 Cents
Basic earnings / (loss) per share	0.3	(4.4)
Diluted earnings / (loss) per share	0.2	(4.4)
Basic earnings per share excluding material items	5.4	5.1
Diluted earnings per share excluding material items	4.9	5.1

1. Refer to note 1(b)

Reconciliation of earnings used in calculating earnings per share

	2022 \$'000	2021 \$'000
<i>Basic and diluted earnings per share</i>		
Profit after income tax excluding material items	6,963	6,184
Material items after income tax (Note 3)	(6,630)	(11,556)
Profit / (Loss) after income tax	333	(5,372)

Weighted average number of shares

	2022 Number	2021 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	128,631,707	121,164,475
<i>Adjustments for calculation of diluted earnings per share</i>		
Shares to be issued for the Chemist Warehouse Alliance contract assets	14,223,817	—
Shares to be issued under the employee share scheme	322,816	241,699
Commencement rights vested for the former Managing Director	—	213,000
Performance rights vested for the former Managing Director	—	590,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	143,178,340	122,209,174

Information concerning the classification of securities

Performance Rights

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

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 and 30 June 2021.

Shares to be issued for the Chemist Warehouse Alliance contract assets

The shares agreed to be issued for the Chemist Warehouse Alliance on 1 July 2022 are dilutive and therefore are included in the calculation of diluted earnings per share for the year ended 30 June 2022.

Notes to the Consolidated Financial Statements (continued)

29. 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 34.

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.

30. RELATED PARTIES

Directors

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

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

Transactions with controlled entities

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

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

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

Transactions with joint ventures

Transactions with joint ventures	2022 \$'000	2021 \$'000
Trade purchases	(810)	(719)
Trade payables	—	(894)
Loan to joint ventures	203	1,587
Expense recharges and management fees	303	936

Terms and conditions

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

Notes to the Consolidated Financial Statements (continued)

31. 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 2022 of the parties to the Deed of Cross Guarantee.

	2022 \$'000	Restated ¹ 2021 \$'000
Income statement		
Revenue	199,708	185,946
Other income	29	11
Expenses	(197,991)	(188,008)
Finance costs	(1,123)	(1,143)
Profit / (loss) before income tax	623	(3,194)
Income tax expense	(41)	(829)
Profit / (loss) after income tax	582	(4,023)

1. Refer to note 1(b)

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

	2022 \$'000	2021 \$'000
Summary of movements in consolidated accumulated losses		
Accumulated losses at beginning of the financial year	(38,114)	(21,753)
Profit / (loss) after income tax for the year	582	(4,353)
Dividends provided for or paid	(5,789)	(12,008)
Transfer of performance rights cancelled to retained earnings	1,411	—
Accumulated losses at the end of the financial year	(41,910)	(38,114)

Notes to the Consolidated Financial Statements (continued)

31. DEED OF CROSS GUARANTEE (continued)

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

	2022 \$'000	2021 \$'000
Current assets		
Cash and cash equivalents	10,726	5,856
Trade and other receivables	28,005	34,705
Inventories	42,226	45,073
Derivative financial instruments	2,038	—
Current tax asset	1,322	1,004
Total current assets	84,317	86,638
Non-current assets		
Other financial assets	51	—
Property, plant and equipment	6,347	6,167
Right-to-use asset	12,568	2,407
Intangible assets	90,453	90,131
Contract assets	8,845	—
Investments	71,493	71,604
Total non-current assets	189,757	170,309
Total assets	274,074	256,947
Current liabilities		
Trade and other payables	55,406	55,374
Borrowings	14,887	—
Lease liabilities	3,041	3,528
Derivative financial instruments	779	992
Provisions	6,396	6,115
Total current liabilities	80,509	66,009
Non-current liabilities		
Other payables	435	—
Borrowings	—	15,773
Lease liabilities	10,872	566
Derivative financial instruments	—	20
Provisions	972	881
Deferred tax liabilities	9,406	8,167
Total non-current liabilities	21,685	25,407
Total liabilities	102,194	91,416
Net assets	171,880	165,531
Equity		
Contributed equity	207,244	206,363
Reserves	6,546	(2,718)
Accumulated losses	(41,910)	(38,114)
Total equity	171,880	165,531

Notes to the Consolidated Financial Statements (continued)

32. NOTES TO THE STATEMENT OF CASH FLOWS

a) Reconciliation of net cash inflows from operating activities to (loss) / profit after income tax	2022 \$'000	Restated ¹ 2021 \$'000
Profit / (loss) after income tax	333	(5,371)
<i>Non-cash items included in Profit / (loss) after income tax:</i>		
Impairment of joint venture investment, shareholder loan and receivables	—	5,001
Release of contingent consideration for the My Kart joint venture	—	(1,829)
Share of loss in joint ventures	159	749
Depreciation of property, plant and equipment	1,778	1,843
Amortisation of other intangibles	564	1,095
Depreciation of right-of-use asset	3,332	2,615
Share-based payments expense	379	1,502
<i>Changes in operating assets and liabilities, excluding the effects from purchase or disposal of business assets:</i>		
Increase / (Decrease) in payables	1,556	(8,267)
Increase / (Decrease) in employee entitlements	251	(1,202)
Increase / (Decrease) in net tax liabilities	(99)	(6,678)
Decrease / (Increase) in receivables	7,835	10,935
Decrease / (Increase) in inventories	2,487	2,301
Net cash inflows from operating activities	18,575	2,694

1. Refer to note 1(b)

b) Non-cash investing and financing activities

	Note	2022 \$'000	2021 \$'000
Shares issued under Dividend Reinvestment Plan	22	—	1,705

c) Net debt reconciliation

	2022 \$'000	2021 \$'000
Cash and cash equivalents	13,139	7,354
Current lease liability	(3,572)	(4,360)
Borrowings	(14,887)	(15,773)
Non-current lease liability	(10,922)	(796)
Net debt	(16,242)	(13,575)
Cash and cash equivalents	13,139	7,354
Gross debt at fixed interest rates (lease liabilities)	(14,494)	(5,156)
Gross debt at variable interest rates	(14,887)	(15,773)
Net debt	(16,242)	(13,575)

Liabilities from financing activities

	Cash and cash equivalents \$'000	Borrowings \$'000	Leases \$'000	Total \$'000
Net debt as at 1 July 2021	7,354	(15,773)	(5,156)	(13,575)
Cash flows	5,785	1,000	3,918	10,703
Acquisition – leases	—	—	(12,918)	(12,918)
Foreign exchange adjustment	—	—	(54)	(54)
Other non-cash movements	—	(114)	(284)	(398)
Net debt as at 30 June 2022	13,139	(14,887)	(14,494)	(16,242)

Notes to the Consolidated Financial Statements (continued)

33. EVENTS OCCURRING AFTER BALANCE DATE

On 1 July 2022, McPherson's Limited issued 14,223,817 fully paid ordinary shares to Chemist Warehouse making it a substantial shareholder, with a holding of 9.9% of McPherson's share on a fully diluted basis. The shares are escrowed for a period of 2 years and will be subject to market standard stand-still arrangements.

No other matter or circumstance, other than what has been noted above, has arisen since 30 June 2022 that has significantly affected the Group's operations, results or state of affairs, or may do so in future financial years.

34. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

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

	2022 \$'000	2021 \$'000
Balance Sheet		
Current assets	3,679	3,655
Total assets	170,046	170,431
Current liabilities	67,172	64,298
Total liabilities	67,185	80,098
Shareholders' equity		
Issued capital	207,244	206,363
Cash flow hedge reserve	1,072	(597)
Share-based payments reserve	11,704	3,880
Financial assets at FVOCI reserve	(6,000)	(6,000)
2016 accumulated losses	(116,095)	(116,096)
Post 2016 retained earnings	4,935	2,783
Total shareholders' equity	102,860	90,333
Profit for the period	6,124	6,017
Total comprehensive income	7,793	(264)

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 31 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 2022.

Share capital

The ordinary share capital in the Company was held by the following number of shareholders as at 31 August 2022:

Range	Total holders	Total shares	% Shares
1 – 1,000	1,855	857,334	0.60
1,001 – 5,000	2,027	5,463,931	3.80
5,001 – 10,000	782	6,042,144	4.20
10,001 – 100,000	1,237	35,164,974	24.42
100,001 and over	101	96,420,758	66.98
Total	6,002	143,949,141	100.00
Holding less than a marketable parcel	1,293	372,836	0.26

Twenty Largest Shareholders as at 31 August 2022

Rank	Name	Number of shares	% Shares
1	Citicorp Nominees Group	21,285,628	14.79
2	CW Retail Holdings Pty Ltd <CW Retail Holdings A/C>	14,223,817	9.88
3	JP Morgan Nominees Australia Pty Limited	11,182,716	7.77
4	HSBC Custody Nominees Group (Australia) Limited	10,548,742	7.33
5	National Nominees Group	10,177,283	7.07
6	Gallin Pty Ltd	6,350,000	4.41
7	BNP Paribas Noms Pty Ltd <DRP>	1,708,076	1.19
8	Mr Han Lin	1,500,000	1.04
9	Mr John Gassner + Mr Nathan Rothchild	1,000,001	0.69
10	Exldata Pty Ltd	863,405	0.60
11	Strategic Value Pty Ltd <TAL Super A/C>	575,975	0.40
12	EGEA Pty Ltd	570,239	0.40
13	Mr Hansjoerg Zinsli	500,000	0.35
14	BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	380,206	0.26
15	Australian Executor Trustees Limited <No 1 Account>	370,000	0.26
16	Exldata Pty Ltd	364,612	0.25
17	Ms Kylie Lynette Nuske + Mr Matthew James Cook <Vision Splendid Super A/C>	341,997	0.24
18	Mrs Maysa Saboune	329,000	0.23
19	Dr Andrew Richard Conway + Dr Vanessa Joy Teague	313,953	0.22
20	Mr Geoffrey William Goode	303,900	0.21
Total 20 largest shareholders		82,889,550	57.58
Total remaining shareholders		61,059,591	42.42
Total ordinary fully paid shares		143,949,141	100.00

Shareholder Information *(continued)*

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 2022 are as follows:

Name of substantial holder	Number of shares held	% of total issued shares
CW Retail Holdings Pty Ltd	14,223,817	9.90%
Sphera Asset Management Pty Ltd	12,233,185	8.50%
Man Group PLC	9,937,661	7.72%
Australian Ethical Investment Limited	9,126,656	7.09%
Microequities Asset Management Pty Ltd	7,465,334	7.18%
Investors Mutual Limited	5,758,226	5.33%

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 2022 is 587,000 performance rights. The number of holders of unquoted securities (performance rights) is 4.

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 2022

McPherson's Limited will be holding a hybrid Annual General Meeting (AGM) at 11:00am (AEDT) on Tuesday 22 November 2022. Shareholders can attend the AGM at the offices of Thomson Geer, Level 14, 60 Martin Place, Sydney, 2000, or access the meeting online via the following link: <https://web.lumiagm.com/361828837>. Shareholders will be able to participate in the AGM online using a smartphone, tablet or computer.

February 2023

Appendix 4D for the half year ended 31 December 2022

August 2023

Appendix 4E for the financial year ended 30 June 2023

September 2023

Annual Report for the financial year ended 30 June 2023

1. Dates and location may be subject to change

For personal use only

