MERCER GROUP LIMITED

2012

Annual Report

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Directors' Report

For the year ended 30 June 2012

Chairman's review

2012 has been a hallmark year for The Mercer Group, delivering a turnaround performance from its recent history and establishing a sound and sustained commercial base for on-going future performance. The year concluded with a loss of $1.0 million, substantially better than last year's underlying EBIT loss of $3.4 million and reported loss of $9.4 million.

Inherent in this result is a first half trading loss of $1.1 million as residual costs from the essential 2011 restructuring flowed through. This was followed with a second half performance of a positive $0.1 million contribution, reflecting the resetting of all divisions of the Group into a sustained pathway of positive contribution. With 10% growth in revenues over last year (in a declining economic environment) and this demonstrable and trended return to profitability, the Board and senior executive of Mercer regard this year as a year of turnaround, boding well for on-going performance improvement into 2013.

A more detailed review of the year's trading and performance improvement initiatives is presented in the CEO's report in the following section. Key highlights that underpin the 'performance reset' of the Group have included the following.

- A dedicated restructure of our trading activities and a refocus on the key markets, i.e. Mercer Interiors focussing on the kitchen interior markets; Mercer Stainless focussing on the stainless steel manufacturing and fabrication market; and Mercer Medical continuing our long standing performance in the Health industry. This approach provides diversification of market geographies (domestic and international) and market sectors in the difficult global and domestic economy.
- Developing and securing strong management and market oriented leadership in all divisions.
- The acquisition of market enhancing agencies such as the USA based Wilsonart bench top laminate in Mercer Interiors and the German based MMM medical equipment agency for Mercer Medical.
- Although just outside the reporting year, the strategic acquisition of 75% of Titan Slicers. Acquisitions such as this are an ongoing priority for the Board as we continue to promote the manufacture of more sophisticated equipment.
- Ongoing support and drive of the immense Research and Development capability inherent within the business. A clearer development plan is being established which bodes well for future growth.
- Rationalistion of the Australian Mercer Stainless business and Australian Interiors business to provide solid platforms for growth without incurring the substantial losses of prior years.
- The on-going performance of our senior executive pairing of Rodger Shepherd, CEO and Tobin Blathwayt CFO, who have both diligently restructured and reset the performance systems, markets and capability across the Group in the 12 months or so that they have been with the business. The early exercise of Rodger's share options reflects a strong confidence in the future potential of this business.
- A much stronger financial base, with the repayment of all shareholder loans, a new and very supportive banking relationship with the BNZ, and a much improved cash position.

It is the Directors' view that 2012 has been a year of consolidation of both the extensive capability inherent in this long standing company, and from an injection of capability and market opportunity. We look forward to a 2013 year in which enhanced revenue and profit performance will ensue.

The Directors have determined that it is not appropriate to pay a dividend for this year.

I would like to take this opportunity to acknowledge and thank Paul Hewitson for his long standing contribution and input to Mercer. Paul retired from the Board during this year. We welcomed onto the Board our CEO, Rodger Shepherd. In addition Paul Smart will join the Board for the 2013 year. Paul is an experienced financial executive and has an extensive governance background in cooperative, publicly listed and private companies. Paul will take up the Chair of the Audit Committee.

We thank investors for their support.

Garry Diack

Directors' Report
For the year ended 30 June 2012

Chief Executive's Report

Second Half Profit for Mercer

We are pleased with the continued improvement in the performance of the company over the second half of the year and in particular generation of a small profit in the six months to 30th June 2012. Highlights of the result are:

- A small profit of $0.1m in the second half.
- EBITDA (operating earnings before interest, tax, depreciation and amortisation) from the on-going business for the year of $1.1m against a target of $1.0m (excluding abnormals).
- Positive cash flows from operations and investing activities of $1.5m after capital expenditure of $0.5m and interest costs of $0.4m.
- Net Debt falling from $6.8m to $4.3m over the 12 months.

At last year's Annual Meeting, we put up a number of objectives for the 2012 Financial Year. We are pleased that most of these objectives have been achieved. Commercialising Research & Development is one area where our progress has been slower than we had hoped.

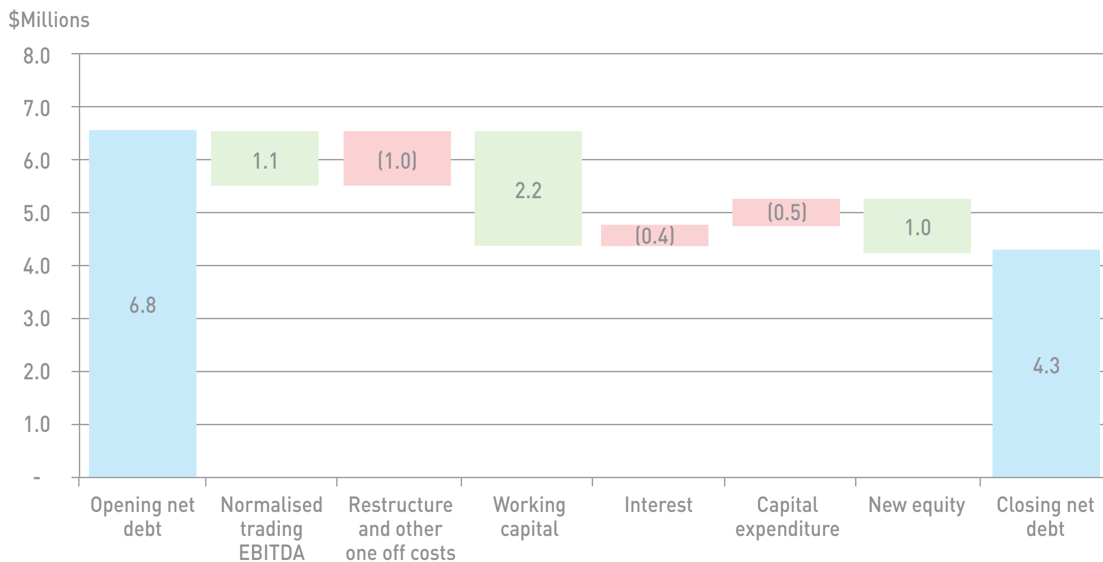
2012 objectives		2012 outcomes
Achieve a cash operating profit (EBITDA) of positive $1m	✓	EBITDA of $1.1m
Achieve positive cash flow (EBITDA less capex less interest) pre-restructuring	✓	Positive cash flow of $0.2m
Commercialise at least one R&D project	✗	Not achieved, however we have continued to advance a number of projects
Stainless Australia breakeven	✓	Currently running around break even
Conclude arrangements with distributor to ensure Interiors Australia is EBITDA positive	✓	Achieved
LTIFR below 20 and tracking downwards	✓	Achieved, current LTIFR for 2012 (eight months) is 16

Funding and Cash Flow

A focus over the past 12 months was improving the company's cash position. During the year the company successfully negotiated new bank facilities with BNZ, and is now covenant compliant. Rodger Shepherd exercised $1m of his options, with the funds used to strengthen the working capital position. The shareholder loan that was drawn in September 2011 has been repaid and bank debt is being reduced by $50,000 per month.

Directors' Report
For the year ended 30 June 2012

The chart below shows the movement of the debt profile from the start of the year and highlights the improving position.



People

One of our primary objectives is to further develop our people and continue to recruit new talent into the company. In particular, we are focussing on becoming a more market focused and customer oriented organisation and want people who have a passion for providing innovative solutions to their customers.

The Company has recruited some new high calibre managers into all three divisions during the year. We continue to focus on building more depth of talent across the business.

During the year new management systems were introduced to ensure all staff have clear objectives and get regular feedback on their progress.

Health and Safety

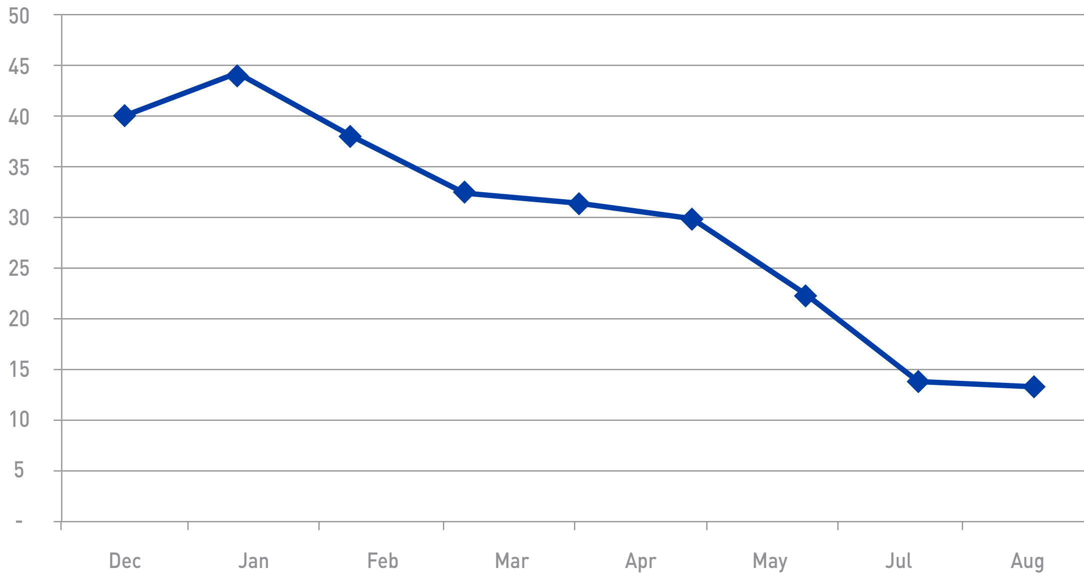
Mercer is committed to improving Health and Safety (H&S) in the workplace. Having recognised that H&S performance was not where it should be, a number of initiatives were introduced during the year to improve the safety of our staff. Lost Time Injury Frequency Rate (LTIFR) is a measure of workplace safety that the company is using to gauge progress. At the 2012 AGM, the LTIFR was 40 and an initial target of reducing the LTIFR to 20 was set, eventually reducing to fewer than 10.

The chart overleaf plots the decline in LTIFR on a rolling six month basis and illustrates the improvements made to date. The LTIFR for 2012 calendar year is currently running at 16.

Directors' Report

For the year ended 30 June 2012

LTIFR six month rolling



Branding

In conjunction with a renewed focus on customers and the market, a refresh and alignment of the Mercer brand was undertaken, with all divisions now consistent in brand and approach. In particular, all staff now promote the Mercer name with the star logo, regardless of which division the person is employed in.

The brand is now much more visible, with sign-written cars, an upgraded website and the move to a new corporate headquarters and distribution centre at 142 Neilson St, Onehunga which proudly displays the Mercer brand. The company has also formed a relationship with Canterbury Netball and in particular appointed Julie and Dallas Seymour as ambassadors to promote Mercer across the Canterbury region.

Stainless Fabrication & Equipment

The Stainless division comprises workshops in Christchurch and New Plymouth with a sales office in Auckland and a branch in Brisbane, Australia. The Stainless division is a fabricator of equipment, predominantly in stainless steel, some of which is Mercer proprietary equipment.

This business had a solid year with the Fonterra dairy plant in Darfield providing the backbone of work together with the greenfield Guardians Balclutha plant, a Primo conveyer project in Australia and a large Acid tower for Ravensdown. The forward Stainless order book is strong with Mercer successfully signing up further work for Stage 2 of the Fonterra plant at Darfield.

Post year-end, Mercer acquired 75% of certain assets of Titan Slicers, and as part of that deal Mercer will manufacture the slicers in the Christchurch workshop. Titan have developed world leading technology and are selling innovative solutions to the world, hence we believe they are a great fit for our company.

We will continue to focus on sales of Mercer proprietary equipment in the next 12 months; including Aico Packaging equipment, Betavac, PV Valve and Titan equipment. The growth of export earnings is a focus for this division and Titan will now provide much of this momentum.

Directors' Report
For the year ended 30 June 2012

Interiors Division

The Interiors division has a well equipped, modern manufacturing facility in Christchurch and supplies sinks, basins, tubs, toilets, laminate, solid surface material and other similar products to joiners, merchants, fabricators and other manufacturers in New Zealand.

Mercer is the market leader in sinks and is now number two in the high pressure laminate market.

During the year, Mercer gained the distribution rights for Wilsonart laminates for the New Zealand market. Wilsonart is the largest laminate supplier in North America and produces an exceptional product at a good price. Wilsonart has a strong market position in New Zealand which we will build on and improve. See picture of the recently launched sample board to the right.

The New Zealand sinkware business continued to be affected by the downturn in residential building activity and delays in the Christchurch rebuild. We are expecting this to lift somewhat during the 2013 year. The Board has approved new tooling that is currently under construction. This will allow us to bring to the market a new modern range of New Zealand manufactured sinkware by the end of the year.

In Australia, Mercer signed a distribution agreement with Bathroom & Kitchen Supplies Pty Ltd (trading as Imperialware) which provided Mercer with greater sales presence and leverage in the Australian market. This arrangement commenced in February. We are finding the Australian market tough to penetrate but with the greater scale and the background work done by Mercer, we believe we can sustainably grow sales in coming years.

Directors' Report
For the year ended 30 June 2012

Medical

Mercer Medical supplies equipment and related products and services for sterilisation, washing and disinfection. During the year Mercer Medical signed new distribution agreements with leading overseas principals, including MMM Group, BHT and Dr Weigert. The division has been focused on developing and improving the equipment servicing business, which is now the backbone of this division, along with selling consumables. As the new brands get recognition in the industry, capital sales should improve. In line with our strategy to be more focused on commercializing the research and development that has been undertaken over the past years, the business will be launching its own benchtop autoclave that we believe will have international appeal.

This division is well positioned in a market segment with strong fundamentals, via an aging population and general increasing spend on sterilization and disinfection. We are committed to growing this division, organically as well as through acquisition.

Research & Development

Mercer has increased the level of resource employed in research and development and will increase this further in 2013. The Company has four primary projects underway:

- S-clave,
- On-farm milk evaporation,
- Mercer benchtop autoclave,
- Leak Detector for the cheese industry.

In addition to these primary projects we have a number of initiatives around the upgrade of our Aico range of packaging equipment, and further development of the Titan equipment.

Outlook

2012 was a transitional year for Mercer, concentrating on the restructuring of the business across most aspects, particularly the Australian divisions that were loss making. With the restructure substantially completed, our focus is now concentrated on continuous improvement in the operating divisions as well as searching for adjacent growth opportunities. Our outlook for the 2013 financial year is for a much improved result and we believe EBITDA should be in the range of $3-$4 million.

Rodger Shepherd

Directors' Report
For the year ended 30 June 2012

Statutory report of directors

Board of Directors

The Board is the governing body of Mercer Group Limited and currently has six members. The directors are elected by the shareholders to oversee the management of the Company and are responsible for all corporate governance matters.

Directors holding office during the period were:

G Diack

SB Heal

P Hewitson (resigned 31 July 2012)

HJD Rolleston

R Rookes

R Shepherd (appointed 25 May 2012)

P Smart (appointed 31 July 2012)

In accordance with the Company's constitution, Mr Heal, Mr Rolleston, Mr Shepherd and Mr Smart are required to retire and, being eligible, will offer themselves for re-election at the next annual general meeting.

Independent Directors

In accordance with NZX Listing Rules 3.3.1(a) and 10.5.5(j) the directors determined that the following directors were independent directors as at 30 June 2012:

G Diack

SB Heal

P Hewitson

Mr Rolleston, Mr Rookes and Mr Shepherd are not independent directors.

Mr Smart, appointed in July 2012, is an independent director.

Committees of the Board

The Board has an Audit Committee and a Remuneration Committee. The Audit Committee comprises Messrs SB Heal, R Rookes and P Smart (Chairman). The Remuneration Committee comprises Messrs G Diack (Chairman) and HJD Rolleston.

The function of the Audit Committee is to assist the Board in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993. In particular, to ensure that management maintains sound accounting practices, policies and controls, and to review and make appropriate inquiry into the audits of the Group's financial statements by the external auditors.

The function of the Remuneration Committee is to make recommendations to the Board concerning Executive Directors' and Executive Officers' remuneration.

Directors' Report
For the year ended 30 June 2012

Corporate Governance

Pursuant to NZX Listing Rule 10.5.3(i) the Company is required to disclose in this annual report the extent to which its corporate governance processes materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

The code of ethics and code of business principles govern how each of the companies which make up the Mercer Group Limited group must conduct its affairs. The codes cover the requirement to avoid conflicts of interest and demand high standards of honesty, integrity and fairness.

The Audit Committee operates under an approved charter, the majority of the members of that committee are independent directors and the committee meets at least twice per year.

The following principles / processes recommended in the code are not complied with at the date of this report:

- Directors' appointments - a nomination committee is not considered appropriate due to the size of the board;
- Director remuneration - a remuneration committee to consider directors' fees is not considered appropriate due to the size of the board;
- Board performance - formal procedures to assess individual and board performance have not been developed.

Interests Register

Each company in the Group is required to maintain an interests register in which the particulars of certain transactions and matters involving the directors must be recorded. The interests registers for Mercer Group Limited and its subsidiaries are available for inspection at the registered offices.

Details of all matters that have been entered in the interests register by individual directors are outlined in the director profiles following. Where a director has declared an interest in a particular entity, as a shareholder and/or director, the declaration serves as notice that the director may benefit from any transaction between the Company or Group and the identified entities.

Information used by Directors

No director of Mercer Group Limited, or any subsidiary, issued a notice requesting to use information received in their capacity as directors which would not otherwise have been available to them.

Insurance of Officers and Directors

Mercer Group Limited has arranged a policy of directors' liability insurance that ensures that officers and directors will not generally incur monetary loss as a result of actions undertaken by them as directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of the law. The total cost of this insurance for the financial year was $13,625.

Directors' Report
For the year ended 30 June 2012

Statutory report of directors

Director Profiles

Garry Diack (Chairman)

Mr Diack is a non-executive director and was appointed to the Board on 6 May 2011.

Matters entered in the interests register:
Mr Diack has declared directorships at year end in the following companies that may trade on a commercial basis with companies in the Mercer Group: Vera Facienda Limited, CPI Limited, General Cable Superconductors Limited.

At 30 June 2012 Mr Diack held 115,320 shares beneficially.

Stuart Heal

Mr Heal is a non-executive director and has been a member of the Board since 1 July 2004.

Matters entered in the interests register:
Mr Heal has declared directorships in the following companies that may trade on a commercial basis with companies in the Mercer Group: Natural Dairy Products 2007 Limited (ceased to be a director on 31 July 2010), Pioneer Generation Limited, Southern Primary Health Organisation.

Paul Hewitson

Mr Hewitson was a non-executive director and was appointed a member of the Board on 29 February 2000. Mr Hewitson ceased to be a director on 31 July 2012.

Matters entered in the interests register:
During the year Mr Hewitson advanced and was fully repaid a loan of $131,000.

At 30 June 2012 Mr Hewitson held 3,984,999 shares as a trustee.

Humphry Rolleston

Mr Rolleston is a non-executive director and has been a member of the Board since 6 August 1986.

Matters entered in the interests register:
Mr Rolleston has declared directorships in the following companies that may trade on a commercial basis with companies in the Mercer Group: Save A Watt Limited, Asset Management Limited, Gresham Finance Limited, Craigpine Timber Limited, Infratil Limited, Matrix Security Group Limited, McRaes Engineering Limited, Property for Industry Limited, Sky Network Television Limited, Murray & Company Limited, Murray Capital Limited, Murray Capital General Partner Limited.

Following the February 2011 earthquake in Canterbury, Asset Management Limited entered into a 12 month lease with an annual rental of $14,000 for 60 square metres of office space at the Mercer Stainless premises, 53 Lunns Road, Christchurch. This lease expires in February 2013.

During the year Gresham Finance Limited advanced and was fully repaid a loan of $327,000.

At 30 June 2012 Mr Rolleston held 35,714,470 shares beneficially. Associated Persons of Mr Rolleston held 49,723,212 shares at that date. Mr Rolleston is a minority shareholder in Murray Capital Rakia Fund Ltd Partnership which has 34,371,533 warrants outstanding.

Richard Rookes

Mr Rookes is a non-executive director and was appointed to the Board on 21 February 2011.

Matters entered in the interests register:
Mr Rookes is a shareholder in Murray & Company Limited and Murray Capital Limited.

During the year Rakaia Finance Limited, a company associated with Mr Rookes, advanced and was fully repaid a loan of $327,000.

Mr Rookes is a related party of Murray Capital Rakia Fund Ltd Partnership which has 34,371,533 warrants outstanding.

Rodger Shepherd
Mr Shepherd is an executive director and was appointed to the Board on 25 May 2012. .

Matters entered in the interests register:
Mr Shepherd has declared directorships in the following companies that may trade on a commercial basis with companies in the Mercer Group: Triplex Management Limited, Triplex Investments Limited, RD & TR Shepherd Limited, Unit2Go Limited, Abbotts Drainage Limited, Honnor Drillers Holding Limited and Honnor Drilling Limited.

During the year RD & TR Shepherd Limited advanced and was fully repaid a loan of $65,000.

At 30 June 2012 Mr Shepherd held 18,781,818 shares beneficially. He also had options to purchase a further 26,050,420 and he is entitled to 1% of the equity of Mercer during the 2013, 2014 and 2015 financial years.

Paul Smart
Mr Smart is a non-executive director and was appointed to the Board on 31 July 2012.

Matters entered in the interests register:
Mr Smart has declared directorships in the following companies that may trade on a commercial basis with companies in the Mercer Group: Postie Plus Group Ltd, NZPM Group Ltd, D'Arcy Polychrome Ltd, Pacific Channel Ltd and Sunrise Consulting Ltd.

Remuneration of Directors

Directors' remuneration received, or due and receivable during the year is as follows:

	2012	2011
	$	$
G Diack	45,000	6,508
I Farrant	-	36,491
SB Heal	38,000	38,000
P Hewitson	38,000	38,000
HJD Rolleston	38,000	38,000
R Rookes	38,000	13,559

Employees

The number of employees within the Group receiving remuneration and benefits above $100,000 are indicated in the following table:

	2012	2011
$100,000 – 109,999	1	2
$110,000 – 119,999	1	2
$120,000 – 129,999	1	4
$130,000 – 139,999	3	1
$140,000 – 149,999	-	1
$150,000 – 159,999	-	1
$160,000 – 169,999	2	1
$170,000 – 179,999	1	1
$190,000 – 199,999	-	1
$210,000 – 219,999	1	2
$370,000 – 379,999	1	-

Shareholders

Shareholder information

The ordinary shares of Mercer Group Limited are listed on the New Zealand Stock Exchange. The information in the disclosures below has been taken from the Company's registers at 31 August 2012.

Twenty largest shareholders:

Holder	Number held	% of Shares on Issue
Murray Capital Rakaia Fund Ltd Partnership	65,628,467	27.65
Asset Management Limited	44,737,879	18.85
HJD Rolleston & GW Riley	35,687,988	15.04
Hubbard Churcher Trust Management Limited	31,320,776	13.20
R Shepherd	18,181,818	7.66
Parvenu Holdings Ltd	6,880,317	2.90
MJ & Estate of AJ Hubbard	6,337,963	2.67
BD Lobb	4,965,329	2.09
P Hewitson & CJ Stark	3,984,999	1.68
RJ Field & AJ Palmer	3,104,030	1.31
Pendene Farm Ltd	975,441	0.41
GB Lowe	828,934	0.35
Asset Trading Ltd	612,567	0.26
RA Snowden	548,800	0.23
IF Farrant	538,240	0.23
Te Iwi Carving Ltd	489,669	0.21
DA Dempsey	486,667	0.21
RRJ Merrall	437,000	0.18
MH Teulon & EM Quigley	384,449	0.16
Forsyth Barr Custodians	371,680	0.16
	226,503,013	**95.44**

Mr R Shepherd, Chief Executive Officer, has options to purchase 14,285,714 shares at 7 cents and 11,764,706 shares at 8.5 cents per share. He is also entitled to 1% of the shares on issue in Mercer Group Limited on the first, second and third anniversary of his appointment.

Mr T Blathwayt, Chief Financial Officer, has options to purchase 3,571,429 shares at 7 cents and 2,941,176 shares at 8.5 cents per share.

Murray Capital Rakaia Fund Ltd Partnership has 34,371,533 warrants at an exercise price of 5 cents per share which can be exercised before December 2013 in parcels of at least 5,000,000 warrants. The fair value of warrants based on the last trading price at 30 June 2012 is 7 cents for each warrant.

Distribution of security holders:

Range of shareholdings	Number of holders	%	Number of shares held	%
1 to 1,000	91	22.50	47,859	0.02
1,001 to 5,000	115	28.50	316,421	0.14
5,001 to 10,000	49	12.10	364,054	0.15
10,001 to 100,000	94	23.30	3,712,561	1.56
100,001 and over	55	13.60	232,881,596	98.13
	404	100	**237,322,491**	100

Domicile of security holders	Number of holders	%	Number of shares held	%
New Zealand	390	96.50	236,191,529	99.50
Australia	11	2.70	965,184	0.40
Other	3	0.70	165,778	0.10
	404	100.0	237,322,491	100.0

Substantial security holders

According to notices given under the Securities Markets Act 1988, the following persons were substantial security holders in the Company as at 31 August 2012, in request of the number of voting securities set out opposite their names.

	Relevant Interest Voting Securities	% of Shares
HJD Rolleston	85,437,682*	36.00
Murray Capital Rakaia Fund Ltd Partnership	65,628,467*	27.65
Hubbard Churcher Trust Management Ltd	31,320,776*	13.20
R Shepherd	18,181,818*	7.66

* The total number of voting securities of the Company on issue at 31 August 2012 was 237,322,491.

NZX Waivers:

The Company has had no waivers granted or published by NZX in this 12 month period immediately proceeding 31 August 2012 and has not relied on any waivers during that period.

Mercer Group Limited
Corporate Directory

Mercer Group Limited

Registered Office:	142 Neilson St, Auckland **Chief Executive Officer:** Rodger Shepherd **Chief Financial Officer:** Tobin Blathwayt
Bankers:	Bank of New Zealand Limited
Solicitors:	Minter Ellison Rudd Watts
Share Registry:	Link Market Services, PO Box 384, Ashburton
Auditors:	PricewaterhouseCoopers

Mercer Interiors

142 Neilson St, Auckland
Ph: (09)8377540
Divisional Manager: Hayden Searle

45 Lunns Road, Christchurch
Ph (03) 348 8002
Factory Manager: David Leigh

16 Blivest Street, Oxley, Queensland, Australia
Ph: 0061 (7) 3279 2020
National Sales Manager: Peter Dawes

Mercer Stainless

53 Lunns Road, Christchurch
Ph: (03) 348 7039
Branch Manager: Ross Coppard

Corbett Road, Bell Block, New Plymouth
Ph: (06) 755 1276
Branch Manager: Terry Moratti

16 Blivest Street, Oxley, Queensland, Australia
Ph: 0061 (7) 3279 2020
Branch Manager: Denis Nolan

Mercer Medical

142 Neilson St, Auckland, Auckland
Ph: (09) 837 5002
General Manager: Charles Brothers

Titan Slicing Systems

4 Forests Road, Stoke, Nelson
Ph: (03) 546 4528
CEO: Sean Marr

Mercer Group Limited

Annual Report for the year ended 30 June 2012

Directors Report

The Directors have pleasure in presenting the Annual Financial Statements of Mercer Group Limited, for the year ended 30 June 2012.
The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 26 September 2012.

G Diack

H J D Rolleston

Statements of Comprehensive Income

For the year ended 30 June 2012

	Notes	Group		Parent	
		30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Revenue					
Sale of goods and contract revenue	6	33,286	30,454	-	-
Other income	7	24	74	603	616
Total income		33,310	30,528	603	616
Expenses					
Cost of inventory sold		17,022	14,176	-	-
Salaries and wages		10,392	11,828	-	-
Rental and operating leases		1,240	1,565	-	-
Depreciation	15	810	1,002	-	-
Amortisation	16	23	234	-	-
Impairment of goodwill	16	-	2,780	-	-
Impairment of other intangible assets	8	-	577	-	-
Other expenses	8	4,559	7,863	886	1,829
Deficit before finance costs	8	(736)	(9,497)	(283)	(1,213)
Finance costs net	9	400	730	323	674
Deficit before taxation		(1,136)	(10,227)	(606)	(1,887)
Income tax credit	10	(174)	(875)	(80)	(152)
Deficit after tax attributable to the shareholders		(962)	(9,352)	(526)	(1,735)
Other comprehensive income					
Currency translation differences		(46)	218	-	-
Asset revaluation reserve movement		-	11	-	-
Other comprehensive income for the year, net of tax		(46)	229	-	-
Total comprehensive income attributable to the shareholders		(1,008)	(9,123)	(526)	(1,735)
Basic earnings per share: Deficit per share attributable to shareholders of the company (cents)	25	(0.43)	(8.19)		
Fully diluted earnings per share: Deficit per share attributable to shareholders of the company (cents)	25	(0.33)	(7.28)		
Net tangible assets per share (cents)		5.38	5.85		

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Statements of Financial Position

As at 30 June 2012

	Notes	Group 30 June 2012 $000	Group 30 June 2011 $000	Parent 30 June 2012 $000	Parent 30 June 2011 $000
ASSETS					
Current assets					
Cash and bank balances		648	-	45	26
Accounts receivable	12	5,925	6,846	-	-
Other debtors and prepayments	12	374	1,053	64	59
Derivative financial instruments	13	-	6	-	-
Taxation refund		-	5	-	5
Inventories	14	3,332	4,761	-	-
Total current assets		10,279	12,671	109	90
Non current assets					
Property, plant and equipment	15	8,927	9,336	-	-
Intangible assets	16	3,637	3,589	-	-
Deferred tax asset	17	4,367	4,225	1,749	1,669
Investments in subsidiaries	18	-	-	1,925	1,946
Advances to subsidiaries	18	-	-	28,546	29,385
Total non current assets		16,931	17,150	32,220	33,000
Total assets		27,210	29,821	32,329	33,090
LIABILITIES					
Current liabilities					
Bank overdraft	11	-	219	-	-
Trade and other payables	19	4,965	5,676	147	165
Employee entitlements		852	949	-	-
Derivative financial instruments	13	17	26	-	-
Borrowings	20	600	6,304	2,028	7,495
Total current liabilities		6,434	13,174	2,175	7,660
Non current liabilities					
Borrowings	20	4,367	230	4,250	-
Total liabilities		10,801	13,404	6,425	7,660
NET ASSETS		16,409	16,417	25,904	25,430
EQUITY					
Contributed equity	21	28,981	27,981	28,981	27,981
Other reserves	22	1,932	2,034	-	-
Retained earnings	22	(14,504)	(13,598)	(3,077)	(2,551)
Total equity		16,409	16,417	25,904	25,430

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

For the year ended 30 June 2012

	Notes	Contributed Equity $000	Retained Earnings $000	Foreign Translation Reserves $000	Asset Revaluation reserve $000	Total Equity $000
Group						
Balance at 30 June 2010		19,437	(4,302)	(333)	2,194	16,996
Foreign currency translation reserve movement	22	-	-	218		218
Deferred tax movement	22				11	11
Asset revaluation reserve movement	22	-	56	-	(56)	-
Deficit for the year		-	(9,352)	-		(9,352)
Total comprehensive income for the year		-	(9,296)	218	(45)	(9,123)
Issue of new shares	21	8,544	-	-		8,544
Dividends paid	23	-	-	-		-
Balance at 30 June 2011		27,981	(13,598)	(115)	2,149	16,417
Foreign currency translation reserve movement	22	-	-	(46)	-	(46)
Asset revaluation reserve movement	22	-	56	-	(56)	-
Deficit for the year		-	(962)	-		(962)
Total comprehensive income for the year		-	(906)	(46)	(56)	(1,008)
Issue of new shares	21	1,000	-	-		1,000
Dividends paid	23	-	-	-		-
Balance at 30 June 2012		**28,981**	**(14,504)**	**(161)**	**2,093**	**16,409**

The above Statements of movements in Equity should be read in conjunction with the accompanying notes.

Statements of Changes in Equity (continued)

For the year ended 30 June 2012

	Notes	Contributed Equity $000	Retained Earnings $000	Foreign Translation Reserves $000	Asset Revaluation reserve $000	Total Equity $000
Parent						
Balance at 30 June 2010		19,437	(816)	-	-	18,621
Deficit for the year		-	(1,735)	-	-	(1,735)
Total comprehensive income for the year		-	(1,735)	-	-	(1,735)
Issue of new shares	21	8,544	-	-	-	8,544
Dividends paid	23	-	-	-	-	-
Balance at 30 June 2011		**27,981**	**(2,551)**	-	-	**25,430**
				-	-	
Deficit for the year		-	(526)	-	-	(526)
Total comprehensive income for the year		-	(526)	-	-	(526)
Issue of new shares	21	1,000	-	-	-	1,000
Dividends paid	23	-	-	-	-	-
Balance at 30 June 2012		**28,981**	**(3,077)**	-	-	**25,904**

The above Statements of Movements in Equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 30 June 2012

	Notes	Group		Parent	
		30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Operating activities					
Cash was provided from:					
Receipts from customers		34,231	31,639	-	-
Taxation received		-	-	-	3
Receipts from subsidiaries		-	-	603	633
Cash was disbursed to:					
Payments to suppliers and employees		(31,942)	(33,078)	(577)	(378)
Interest on borrowings		(270)	(806)	(265)	(779)
Other interest		(130)	(59)	-	-
Payments to subsidiaries		-	-	(58)	(83)
Net cash inflow / (outflow) from operating activities	24	**1,889**	(2,304)	**(297)**	(604)
Investing activities					
Cash was provided from:					
Proceeds from sale of property, plant and equipment		40	7	-	-
Repayments from subsidiaries		-	-	618	1,699
Cash was applied to:					
Purchase of property, plant and equipment		(425)	(427)	-	-
Patents and development activities		(70)	(159)	-	-
Advances to subsidiaries		-	-	-	(4,127)
Net cash outflow from investing activities		**(455)**	(579)	**618**	(2,428)
Financing activities					
Cash was provided from:					
New borrowings		5,850	1,500	5,850	1,500
Issue of new shares		1,000	3,976	1,000	3,976
Cash was applied to:					
Repayment of borrowings		(7,417)	(2,540)	(7,152)	(2,426)
Net cash inflow / (outflow) from financing activities		**(567)**	2,936	**(302)**	3,050
Net increase in cash held		867	53	19	18
Cash at beginning of the year		(219)	(261)	26	8
Effect of exchange rate changes		-	(11)	-	-
Cash and bank balances at the end of the year	11	**648**	(219)	**45**	26

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.
The Statements of Cash Flows are exclusive of GST.

1. General information

Mercer Group Limited is a public company registered under the Companies Act 1993 and is listed with the New Zealand Stock Exchange (NZX).

The Group comprises Mercer Group Limited and its wholly owned subsidiaries as disclosed in Note 18. The core activities of the Mercer Group are:

- The manufacture in Christchurch and supply to New Zealand and Australia of kitchen, bathroom and laundry products by Mercer Interiors, formerly Products.
- Stainless steel fabrication and equipment manufacture and supply by Mercer Stainless workshops in Christchurch and New Plymouth and with a branch in Brisbane.
- The supply of equipment and related products and services for sterilization, washing and disinfection by Mercer Medical.

The Group is designated as a profit-oriented entity for financial reporting purposes.

The financial statements have been approved for issue by the Board of Directors on 26 September 2012.

2. Summary of significant accounting policies

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Entities reporting

The financial statements are for Mercer Group Limited ("the Company" or "the Parent") and the consolidated economic entity comprising Mercer Group Limited and its subsidiaries (together "the Group").

Statutory base

Mercer Group Limited is a limited liability company which is incorporated and domiciled in New Zealand. The address of its registered office is 142 Neilson Street, Onehunga, Auckland. It is registered under the Companies Act 1993 and is an issuer in terms of the Securities Act 1978.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practise (NZ GAAP) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). They also comply with International Financial Reporting standards (IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

Historical cost convention and going concern assumption

These financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of land and buildings and financial assets and financial liabilities (including derivative financial instruments) at fair value through the statement of comprehensive income.

In the year ended 30th June 2012, Mercer successfully completed the realignment of its Australian operations to an appropriate scale. Following this restructure, the Group was EBITDA positive. The Group has met its bank covenants and has secured on-going funding. Accordingly, the directors believe that it is appropriate to prepare financial statements on a going concern basis.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mercer Group Limited as at 30 June 2012 and the results of subsidiaries for the year then ended.

Subsidiaries are all those entities over which Mercer Group Limited has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Mercer Group controls another entity.

Subsidiaries which form part of the Group are fully consolidated from the date on which control is transferred to Mercer Group Limited. They are deconsolidated from the date that control ceases or they cease to be part of the Group.

The acquistion method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

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

Investments in subsidiaries held by the Parent are accounted for at cost less impairment.

(c) Segment reporting

NZ IFRS 8 Segment information is presented on the same basis as that used for internal reporting purposes. 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 Chief Executive Officer. The Chief Executive Officer reviews the Group's internal reporting in order to assess performance and to allocate funding and resources. Management has determined the operating segments based on these reports.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the subsidiaries' operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is Mercer Group Limited's functional currency and the Group's presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each statement of comprehensive income are translated at average exchange rates; and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the statement of comprehensive income as part of the gain or loss on sale.

(e) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and the revenue can be measured reliably.

(ii) Construction contracts

Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a construction contract, the excess of total costs over revenue is recognised as an expense immediately.

Where the outcome of the contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

For fixed price contracts, the stage of completion is measured by reference to costs incurred to date as a percentage of estimated total contract costs for each contract. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus the percentage of fees earned. The percentage of fees earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

(iii) 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 company will comply with all attached conditions.

When the requirements under the Grant agreement have been met, grants received relating to costs are recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(vi) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(f) Income tax

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

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

Deferred tax 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 company 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.

The income tax expense or revenue attributable to amounts recognised directly in equity is also recognised directly in equity. The associated current or deferred tax balances are recognised in these accounts as usual.

Current and deferred tax assets and liabilities of individual entities are reported separately in the consolidated financial statements unless the entities have a legally enforceable right to make or receive a single net payment of tax and the entities intend to make or receive such a net payment or to recover the current tax asset or settle the current tax liability simultaneously.

(g) Goods and Services Tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(h) Leases

Leases of property, plant and equipment (PPE) where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The PPE under finance leases are depreciated on the same basis as equivalent property, plant and equipment.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight line basis over the period of the lease.

(i) Impairment of non-financial assets

Tangible and Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. 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 flows (cash-generating units).

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term deposits, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown separately under current liabilities in the statement of financial position.

(k) 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.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'other expenses'. When a trade receivable is uncollectible, it is written off against an allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the statement of comprehensive income.

(l) Inventories

(i) Raw materials and finished goods

Raw materials and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(ii) Contract work in progress

Contract work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. Cost includes all expenses directly related to specific contracts including direct materials, labour and production overheads.

(m) Investments and other financial assets

Investments

Investments in subsidiaries in the parent financial statements are recorded at cost, less amounts written off.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are initially recognised at fair value on trade date plus transaction costs. Trade date is the date on which the Group commits to purchase or sell the asset. They are subsequently carried at amortised cost using the effective interest method. They are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in the statement of comprehensive income.

(n) Derivatives

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. Changes in the fair value of derivative instruments are recognised immediately in the statement of comprehensive income. Derivatives are recognised on trade date and derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(o) Fair value estimation

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

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance date.

The fair value of financial instruments that are not traded in an active market (eg over the counter derivatives) is determined using valuation techniques.

(p) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least every five year valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of assets constructed by the Group includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

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. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Borrowing costs incurred for the acquisition or construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the assets for its intended use. Other borrowing costs are expensed.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings 3%
- Plant and equipment 5.5% – 67.0%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These gains and losses are included in the statement of comprehensive income. When revalued assets the amounts included in other reserves in respect of those assets are transferred to retained earnings.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill is not amortised. Instead, goodwill 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. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

Negative goodwill arising on an acquisition is recognised directly in the statement of comprehensive income.

(ii) Research and development

Expenditure on research activities, net of any grants receivable, is recognised in the statement of comprehensive income as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, net of any grants receivable, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, generally not exceeding five years.

(iii) Patents, trademarks and licences

Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of patents, trademarks and licences over their estimated useful lives, not exceeding twenty years.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within normal terms of trade.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(u) Contributed equity

Ordinary shares are classified as equity.

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

(v) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised separately in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave 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 reporting date using the projected unit credit method. 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 balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Short-term employee benefits

Employee entitlements to salaries and wages, annual leave and sick leave to be settled within 12 months of balance date represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

(w) Dividends

Provision is made for the amount of any dividend declared on or before the balance date but not distributed at balance date.

(x) Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(y) Discontinued operations

A discontinued operation is a component of the Group that has either been disposed of, been closed, to be closed or is held for sale and represents a separate major line of business or geographical area of operations.

(z) Share based payments

The Group operates a share-based compensation plan under which it receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted.

At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, on the income statement, with a corresponding adjustment to equity.

When the vesting conditions are met the company issues new shares. The proceeds received net of any directly attributable transaction costs are added to share capital.

(aa) Changes in accounting policies

There have been no significant changes in accounting policies from those applied by the Group in the financial statements as at 30 June 2011 except for the application of share based payment accounting policy upon the introduction of share based payments in the year ended 30 June 2012.

The presentation of certain comparatives have been revised to ensure consistency of disclosure with the current period.

(ab) New standards and amendments

The following are the new standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2011 and which are relevant to the Group. These amendments have not resulted in material accounting or disclosure changes for the Group.

Revised NZ IAS 24 Related *Party Disclosures* (effective for annual reporting periods beginning on or after 1 January 2011)
NZ IAS 24 is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party.

FRS 44 New Zealand Additional Disclosures and *Harmonisation Amendments* (effective 1 July 2011)
FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the group's current disclosures.

The Harmonisation Amendments amends various NZ IFRSs for the purpose of harmonising with the source IFRSs and Australian Accounting Standards. The significant amendments include:

- deletion of the requirement for an independent valuer to conduct the valuation of investment property and property, plant and equipment;
- inclusion of the option to account for investment property using either cost or fair value model;
- introduction of the option to use the indirect method of reporting cash flows that is not currently in NZ IAS 7.

In addition, various disclosure requirements have been deleted.

At the date of authorisation of these financial statements, the following Standards and interpretations of relevance to the Group were in issue but not yet effective and have not been early adopted:

NZ IAS 12 Recovery of *Underlying Assets* (effective from 1 January 2012)
The amendment requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale and introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The group will apply the amendment from 1 July 2012.

NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements*, NZ IFRS 12 *Disclosure of Interests in Other Entities*, revised NZ IAS 27 *Separate Financial Statements* and NZ IAS 28 *Investments in Associates and Joint Ventures* (effective 1 January 2013)

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ IFRIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. NZ IFRS 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group entered into a joint arrangement in July 2013.

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

NZ IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group other than disclosures.

NZ IFRS 9 *Financial Instruments* (effective for annual reporting periods beginning on or after 1 January 2015)
NZ IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the group does not have any such liabilities. The group will adopt NZ IFRS 9 no later than for accounting periods beginning after 1 July 2014.

NZ IFRS 13 *Fair Value Measurement* (effective 1 January 2013)
NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group intends to first apply this in the annual reporting period ending 30 June 2014.

Revised NZ IAS 19 *Employee Benefits* (effective 1 January 2013)
It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates and judgements concerning the future. The resulting estimates may not equal related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Intangible Assets

Judgements have been made in relation to capitalisation of development assets and related patents as disclosed in note 16. These judgements include an assessment of the technical feasibility of the projects, the intention to complete, use or sell the assets, the existence of a market for the assets and the availability of resources to complete the developments. If any of these criteria ceased to be met then the carrying value of development assets may be impaired.

Work in Progress

Construction revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the project cannot be reliably measured. This involves both judgement and estimation by management of total contract revenues including any variations as compared to costs to date and remaining costs to completion. Work in progress is detailed in note 14.

Deferred Tax Asset

The Group and Company have recognised a deferred tax asset, a component of which relates to New Zealand tax losses, as detailed in note 17. Management has estimated future forecast taxable income in determining whether a deferred tax asset should continue to be recognised and the quantum of this asset.

Impairment Testing

Goodwill and investments in subsidiaries have been tested for impairment based on the higher of value in use or fair value less costs to sell. Determining value in use and fair value less costs to sell includes a number of assumptions including future growth and the discount rate applicable to the cash-generating units. Goodwill impairment testing including key assumptions are detailed in note 16. Investment in subsidiaries impairment testing including key assumptions are disclosed in note 18.

4. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain foreign currency risk exposures. Derivatives are exclusively used for hedging purposes (while hedge accounting is not applied as the Group does not meet the hedge accounting criteria), ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange to determine market risk and aging analysis for credit risk.

Risk management is carried out by the Board with responsibility delegated through to the Audit Committee. The Audit Committee identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management as well as policies covering specific areas such as interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments.

The Group and the parent entity hold the following financial instruments:

	Loans and receivables $'000	Financial assets at fair value through profit and loss $'000	Financial liabilities at fair value through profit and loss $'000	Other financial liabilities $'000
Group 2012				
Cash and cash equivalents	648	-	-	-
Trade and other receivables	6,144	-	-	-
Derivative financial instruments	-	-	-	17
Trade and other payables	-	-	-	5,817
Borrowings and overdraft	-	-	-	4,967
	6,792	-	-	10,801
Group 2011				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	7,532	-	-	-
Derivative financial instruments	-	6	-	26
Trade and other payables	-	-	-	6,625
Borrowings and overdraft	-	-	-	6,753
	7,532	6	-	13,404
Parent 2012				
Cash and cash equivalents	45	-	-	-
Other receivables	64	-	-	-
Other payables	-	-	-	147
Borrowings and overdraft	-	-	-	6,278
	109	-	-	6,425
Parent 2011				
Cash and cash equivalents	26	-	-	-
Other receivables	59	-	-	-
Other payables	-	-	-	165
Borrowings and overdraft	-	-	-	7,495
	85	-	-	7,660

(a) Market risk

(i) Foreign exchange risk

The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies, arising from normal trading activities. Where exposures are certain it is the Group's policy to hedge these risks as they arise. The Group uses foreign exchange currency contracts and foreign currency denominated borrowings to manage these exposures. The following table shows the sensitivity of the Group and Company's after tax profit and equity to a movement in the exchange rate of +/-10% with all other variables held constant, which the directors consider reasonably possible.

Group - $'000

	Foreign Currency amount	+10% and $'000 Post tax profit	Equity	-10% and $'000 Post tax profit	Equity
30 June 2012	(406)	29		(29)	
30 June 2011	(1,687)	121	-	(121)	-

Parent - $'000

	Foreign Currency amount	+10% and $'000 Post tax profit	Equity	-10% and $'000 Post tax profit	Equity
30 June 2012	-	-	-	-	-
30 June 2011	-	-	-	-	-

Concentrations of foreign currency exposure

The following table shows the assets and (liabilities) of the Group and Parent denominated in currencies other than the functional currency of the Company and subsidiaries:

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Trade receivables				
Australian dollar	199	366	-	-
United States dollar	-	2,323	-	-
Euro	-	-	-	-
Other	322	-	-	-
Trade payables				
Australian dollar	(141)	(139)	-	-
United States dollar	(20)	-	-	-
Euro	(27)	(71)	-	-
Other	-	(63)	-	-
Borrowings and advances				
Australian dollar	-	(2,202)	-	-
United States dollar	-	(1,640)	-	-
Euro	-	-	-	-
Other	-	-	-	-
Derivative financial instruments (notional amounts)				
Australian dollar	(765)	617	-	-
United States dollar	-	-	-	-
Euro	-	-	-	-
Other	26	(878)	-	-
	(406)	(1,687)	-	-

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Until December 2011 the Group's borrowings at variable rates were denominated in New Zealand dollars, Australian dollars and United States dollars. All borrowings are now denominated in New Zealand dollars.

Mercer Group Limited can enter into interest rate swaps and forward rate agreements to manage its interest rate risk although no such instruments are in place at balance date (2011: Nil).

The following table shows the sensitivity of the Group and Company's after tax profit and equity to a movement in interest rates of +/-1 percentage point (pp) which the directors consider reasonably possible. The total amount of interest bearing debt at balance date of the Company and the Group on which interest is not fixed is $4,850,000 (2011: Company and Group $6,152,000). The table assumes no additional borrowing, no repayments and a tax rate of 28% (2011: 28%).

	$'000	+1pp and $'000		-1pp and $'000	
Group	Carrying amount	Post tax profit	Equity	Post tax profit	Equity
30 June 2012	4,850	(35)	-	35	-
30 June 2011	6,152	(44)	-	44	-

	$'000	+1pp and $'000		-1pp and $'000	
Parent	Carrying amount	Post tax profit	Equity	Post tax profit	Equity
30 June 2012	4,850	(35)	-	35	-
30 June 2011	6,152	(44)	-	44	-

(b) Credit risk

In its normal course of business the Group is subject to credit risk from trade debtors and transactions with financial institutions. The Group has a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposure with counterparties have been set and are monitored on a regular basis. The Group enters into financial instruments with various counterparties in accordance with established limits as to credit rating and dollar limits and does not require collateral or other security to support the financial instruments. The carrying amounts of financial assets recognised in the statement of the financial position best represents the Group's maximum exposure to credit risk at the reporting date.

Refer to note 12 for more information on impairment of trade receivables.

At 30 June 2012 the Group had exposure to two significant debtors which in total amounted to $1,974,000. Subsequent to year end one debtor owing $1,233,000 settled its account in full. The other debtor had settled $275,000 of its balance. There are no further concentrations of credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

All financial liabilities are due in less than 12 months with the exception of liabilities associated with:

- hire purchase agreements whereby $Nil (2011: $230,000) are due between 2 and 5 years.
- Bank debt whereby $4,250,000 (2011: $Nil) are due between 2 and 5 years.

Contingent liabilities disclosed in note 26 amount to $2,781,000 (2011: $1,634,000) for the Group and $2,741,000 (2011: $1,634,000) for the Parent. If these amounts become payable, the liabilities would fall due in less than 12 months.

(d) Capital risk management

The Group's capital comprises ordinary shares, retained earnings and other reserves. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders 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 amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the equity ratio. This ratio is calculated as equity divided by total assets.

	Group		Parent	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Equity $'000	16,409	16,417	25,904	25,430
Total assets $'000	27,210	29,821	32,329	33,090
Equity ratio	60.3%	55.1%	80.1%	76.9%

The Group is subject to a covenant in relation to the bank facility whereby the ratio of shareholder funds to total tangible assets must exceed 45%.

(e) Fair value hierarchy

The fair value of trade receivables, trade payables and cash and cash equivalents are determined to be equivalent to their carrying value due to the short term nature of these balances.

The fair value of the Group's borrowings is estimated based on current market rates available to the Group for debt of similar maturity.

The fair value of derivative financial instruments is estimated using forward exchange market rates at balance date.

The only financial instrument measured at fair value on the Statement of Financial Position by the Group are over the counter derivatives. These derivatives have all been determined to be within level 2 of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable (refer note 2 (o)). The fair value of these derivatives is disclosed in note 13.

5. Segment information

The Group is organised into the following operating segments by product and services type:

Stainless Fabrication: The division includes the fabrication workshops in Christchurch and New Plymouth operated by Mercer Stainless Limited and the office in Brisbane, Australia operated by Mercer Technologies Pty Limited. The division is a fabricator of equipment, predominantly in stainless steel and also designs and manufactures proprietary equipment.

Mercer Interiors (formerly Products): The division manufactures and supplies sinks, basins, tubs, toilets, laminate, solid surface material and other similar products to merchants, fabricators and to other manufacturers.

Mercer Medical: Mercer Medical supplies equipment and related products and services for sterilization, washing and disinfection.

Corporate: This division includes Mercer Group Limited, the Parent Company and the head office activities within Mercer Stainless Limited. The segment result includes rental received from other segments in respect of properties owned and occupied by Mercer Stainless Limited.

	30 June 2012 $000			30 June 2011 $000		
	Total sales revenue	Segment result	Segment assets	Total sales revenue	Segment result	Segment assets
Stainless Fabrication	21,067	762	5,260	18,287	(7,152)	6,274
Mercer Interiors	8,578	(273)	7,213	9,050	(826)	9,603
Mercer Medical	3,895	149	1,137	3,261	(131)	1,244
Corporate	30	(1,374)	13,600	95	(1,340)	12,700
Intersegment eliminations	(284)	-	-	(239)	-	-
Finance costs	-	(400)	-	–	(730)	-
Income tax credit	-	174	-	–	827	-
Total Group	33,286	(962)	27,210	30,454	(9,352)	29,821

One Stainless Fabrication customer contributed $4,241,000 of revenue in the year ended 30 June 2012. No other customer's revenues have exceeded 10% of total revenues in either year.

Properties, tax balances and certain development assets in progress have been included in the Corporate segment.

Depreciation and amortisation included in the segment results disclosed above was:

	30 June 2012 $000	30 June 2011 $000
Stainless Fabrication	286	475
Mercer Interiors	288	506
Mercer Medical	28	36
Corporate	231	219
	833	1,236

It is not practical to provide an analysis of sales revenue or results by geographical location.

Non current assets, excluding the deferred tax asset, analysed by geographical location was:

	30 June 2012 $000	30 June 2011 $000
New Zealand	12,327	12,546
Australia	237	379
	12,564	12,925

6. Sale of goods and contract revenue

	30 June 2012 $000	30 June 2011 $000
Group		
Sale of goods	10,803	9,654
Construction contract revenue	22,483	20,800
	33,286	30,454

7. Other income

	30 June 2012 $000	30 June 2011 $000
Group		
Other	24	74
Total other income	24	74
Parent		
Dividends received	-	-
Total other income	-	-

8. Other expenses

The deficit for the year is stated after taking into account the following specific expenses:

	30 June 2012 $000	30 June 2011 $000
Group		
Foreign exchange losses	25	121
Loss on disposal of property, plant and equipment	12	-
Research and development	21	16
Advertising	143	322
Bad debts written off (note 12)	34	36
Communication costs	265	278
Electricity costs	224	229
Employee on-costs	442	549
Insurance	326	271
Vehicle expenses	248	279
Impairment of receivables (note 12)	-	85
Impairment of patents and development costs (note 16)*	-	577
Impairment of inventories (note 14)	16	321
Impairment of fixed assets (note 15)*	-	195
Directors fees	199	171
Repairs and maintenance	522	426
Restructuring costs*	250	2,021
Subcontractors	297	147
Travel and accommodation	352	442
Fees paid to Auditors		
Audit	105	121
Other	10	5
Donations	-	-
Other expenses	1,068	1,251
	4,559	7,863
Parent		
Impairment of subsidiaries (note 18)	326	1,344
Directors fees	199	171
Fees paid to Auditors		
Audit	46	54
Other	10	5
Other expenses	305	255
	886	1,829

* Restructuring costs in 2012 comprise replacement and recruitment of management. In 2011 these comprised additional impairment of intangibles $514,000, inventory $791,000, fixed assets $299,000 and a provision of $417,000.

Other expenses comprise various operational expenses, none of which are significant in themselves.

9. Finance costs

	30 June 2012 $000	30 June 2011 $000
Group		
Interest earned	-	(48)
Less:		
Interest expense	400	778
Net finance costs	400	730
Parent		
Interest earned	-	-
Less:		
Interest expense	323	674
Net finance costs	323	674

10. Income tax credit

	30 June 2012 $000	30 June 2011 $000
Group		
(a) Income tax credit		
Current tax	-	-
Deferred tax (Note 17)	(174)	(875)
	(174)	(875)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Deficit before tax expense	(1,136)	(10,227)
Expenditure not deductible for tax	17	2,790
Deficit subject to tax	(1,119)	(7,437)
Tax at the New Zealand tax rate of 28%	(313)	(2,081)
Underestimation in prior year	8	3
Recognise deferred tax on buildings	16	16
Current year tax losses in Australia not recognised	115	1,187
Income tax credit	(174)	(875)

	30 June 2012 $000	30 June 2011 $000
Parent		
(a) Income tax credit		
Current tax	-	-
Deferred tax (Note 17)	(80)	(152)
	(80)	(152)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Deficit before tax expense	(606)	(1,887)
Impairment of investments in subsidiaries	327	1,344
Other expenditure not deductible for tax	(6)	-
Deficit subject to tax	(285)	(543)
Tax at the New Zealand tax rate of 28%	(80)	(152)
Income tax credit	(80)	(152)

(c) Unrecognised deferred tax balances

At 30 June 2012 there were $9,396,000 (2011: $9,656,000) of unrecognised tax losses, representing a tax benefit of $2,819,000 (2011: $2,897,000). Unrecognised deferred tax balances represent tax losses in Australia that have not been recognised due to the lack of probability that future taxable income will be available.

(d) Imputation credit account

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Credits available to shareholders of the company	-	-	-	-

11. Cash and bank balances

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Cash at bank and in hand	648	-	45	26
Total cash and bank balances	648	-	45	26
Less bank overdrafts	-	219	-	-
Cash and cash equivalents per cash flow statement	648	(219)	45	26

12. Accounts receivable, other debtors and prepayments

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Current				
Trade receivables	2,638	1,483	-	-
Less provision for doubtful receivables	(32)	(71)	-	-
Construction contract receivables	3,373	5,501	-	-
Less provision for doubtful receivables	(54)	(67)	-	-
Total accounts receivable	5,925	6,846	-	-
Other debtors and prepayments				
Total other debtors	219	686	64	59
Prepayments	155	367	-	-
Total other debtors and prepayments	374	1,053	64	59
Impairment provision				
Provision for doubtful debts at 1 July	(138)	(90)	-	-
(Increase) / Decrease in provision	18	(85)	-	-
Bad debts written off	34	37	-	-
Provision for doubtful debts at 30 June	(86)	(138)	-	-
Past due and impaired receivables				
Impaired receivables				
1 to 3 months	-	-	-	-
Over 3 months	86	138	-	-
	86	138	-	-
Past due but not impaired receivables				
1 to 3 months	1,622	962	-	-
Over 3 months	75	383	-	-
	1,697	1,345	-	-

All trade and other receivables are expected to mature within 12 months of balance date. Management considers that receivables past due, but not impaired, are fully collectible in the ordinary course of business.

13. Derivative financial instruments

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Forward foreign exchange contracts				
Assets	-	6	-	-
Liabilities	(17)	(26)	-	-
Total	**(17)**	**(20)**	**-**	**-**
Expected maturity				
Within 12 months	(17)	(20)	-	-
Later than 12 months	-	-	-	-
Total	**(17)**	**(20)**	**-**	**-**

The Group enters into forward foreign exchange rate contracts to hedge foreign currency risk exposures on trade accounts receivable and accounts payable. At balance date the Group held four (2011: seven) forward foreign exchange contracts for a total notional amount of $1,000,000 (2011: $1,494,000).

14. Inventories

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Raw materials and components	1,143	1,833	-	-
Contract work in progress	5,623	12,771	-	-
Less: progressive billings	(5,937)	(12,753)	-	-
	829	1,851	-	-
Finished goods	2,503	2,910	-	-
Total inventories	**3,332**	**4,761**	**-**	**-**

The cost of inventories recognised as impaired and included in cost of inventory sold amounted to $14,000 expense (2011: $473,000 expense). The cost of inventories recognised as impaired and included in restructuring costs amounted to $Nil (2011: $791,000 expense).

Certain inventories in New Zealand are subject to restriction of title, either as a consequence of suppliers registering an interest under the Personal Property Securities Act 1999 or through the operation of Romalpa Clauses. Inventories are also subject to security in connection with bank borrowings, as disclosed in note 20.

15. Property, plant and equipment

Group	Freehold land $'000	Buildings $'000	Plant, and equipment $'000	Total $'000
At 1 July 2010				
Cost/Valuation	1,557	3,743	14,020	19,320
Accumulated depreciation	-	(117)	(8,817)	(8,934)
Net book value	1,557	3,626	5,203	10,386
Year ended 30 June 2011				
Opening net book amount	1,557	3,626	5,203	10,386
Additions	-	-	343	343
Impairment	-	-	(494)	(494)
Effect of exchange rate movements	-	-	109	109
Depreciation	-	(110)	(892)	(1,002)
Disposals	-	-	(6)	(6)
Closing net book amount	1,557	3,516	4,263	9,336
At 30 June 2011				
Cost/Valuation	1,557	3,743	14,466	19,766
Accumulated depreciation	-	(227)	(10,203)	(10,430)
Net book value	1,557	3,516	4,263	9,336
Year ended 30 June 2012				
Opening net book amount	1,557	3,516	4,263	9,336
Additions	-	-	480	480
Impairment	-	-	-	-
Effect of exchange rate movements	-	-	-	-
Depreciation	-	(122)	(688)	(810)
Disposals	-	-	(79)	(79)
Closing net book amount	1,557	3,394	3,976	8,927
At 30 June 2012				
Cost/Valuation	1,557	3,743	14,867	20,167
Accumulated depreciation	-	(349)	(10,891)	(11,240)
Net book value	1,557	3,394	3,976	8,927

The property at 53 Lunns Road, Christchurch was revalued to $3,350,000 on 5 May 2009. The property at Corbett Rd, Bell Block was revalued to $1,950,000 on 23 March 2009. The values were determined by independent registered valuers, Telfer Young (Canterbury) Limited and Telfer Young (Taranaki) Limited, on the basis of open market value for the highest and best use for the properties. The primary approach used by the valuers was the investment approach which involves capitalising the net market income at an appropriate market derived rate of return to reflect the use, demand and risk associated with the properties and includes comparison with rental and sales evidence of other similar properties. The Christchurch property has not been affected by the Canterbury earthquake as it is away from the 'red zone' area. The property will be revalued on a cyclical basis by external independent valuers.

The properties are subject to a registered first charge in favour of Bank of New Zealand Limited.

Included in plant and equipment are assets with a cost of $303,000 (2011: $624,000) and a net book value of $89,000 (2011: $372,000), which are subject to hire purchase agreements.

If land and buildings were held at historic cost, the following amounts would be recognised:

	30 June 2012 $000	30 June 2011 $000
Cost	2,920	2,920
Accumulated depreciation	(695)	(639)
Net book value	**2,225**	**2,281**

16. Intangible assets

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Goodwill				
Cost	5,313	5,313	-	-
Impairment charges	(2,614)	(2,614)	-	-
Net book amount	2,699	2,699	-	-
Opening balance	2,699	5,313	-	-
Effect of movement in exchange rate	-	166	-	-
Impairment charge	-	(2,780)	-	-
Closing balance	2,699	2,699	-	-
Acquired patents, trademarks and licences				
Cost	590	562	-	-
Accumulated amortisation and impairment charges	(358)	(350)	-	-
Net book amount	232	212	-	-
Opening balance	212	405	-	-
Additions	28	33	-	-
Effect of movement in exchange rate	-	(58)	-	-
Impairment charge	-	(152)	-	-
Amortisation	(8)	(16)	-	-
Closing balance	232	212	-	-
Development assets				
Cost	2,209	2,880	-	-
Accumulated amortisation and impairment charges	(1,504)	(2,202)	-	-
Net book amount	705	678	-	-
Opening balance	678	1,603	-	-
Additions	42	126	-	-
Effect of movement in exchange rate	-	106	-	-
Impairment charge	-	(939)	-	-
Amortisation	(15)	(218)	-	-
Closing balance	705	678	-	-
Total intangible assets	3,637	3,589	-	-

An amortisation period of five years has been adopted in respect of development assets completed and commercialised. The amortisation period for patents is the life of the patent, generally 20 years.

Goodwill impairment test

Goodwill is allocated to the Group's cash-generating units (CGUs) generally being the subsidiary or operating segment to which the goodwill relates. A summary of the goodwill allocation is presented below.

	30 June 2012 $000	30 June 2011 $000
Mercer Interiors	2,699	2,699

The goodwill allocated to Mercer Interiors relates to the acquisition and subsequent integration of Duratech Wholesale Limited in 2008.

On an annual basis, the recoverable amount of the goodwill is determined based on value in use calculations for the cash generating unit that the intangible relates to. These calculations use cash flow projections based on management budgets to June 2013.

In 2011 cash flows for Mercer Interiors for the 2012 year were forecast assuming a growth rate of 18%. Due to the continued slow recovery and delayed Christchurch re-build, the actual growth rate was -5.0%. Cash flows for 2013 for Mercer Interiors assume a 9% per annum sales growth (2011 assumed 7.5%) for the next five years as the economy improves. A terminal year was calculated based on the 2017 year and assumes a continuous growth rate of 3% (2011: 3%).

The discount rate used is the averaged weighted cost of capital of 13% (2011: 13%).

For there to be an impairment requirement the key assumptions would need to change as follows:

	Mercer Interiors	
Key Assumptions	Original value	Impairment required at
Average annual revenue growth rate for the next five years	9%	7%
Discount rate	13%	19%

The forecasts are based on a terminal year growth rate of 3% with impairment required if sales were to fall by 15%.

Impairment of goodwill included in restructuring costs amounted to $Nil (2011: $2,780,000). Impairment of patents, trademarks & licences included in restructuring costs amounted to $Nil (2011: $67,000). Impairment of development assets included in restructuring costs amounted to $Nil (2011: $447,000).

17. Deferred tax asset

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Group				
Balance at 1 July 2010				
Disclosed separately on balance sheet	(998)	684	3,648	3,334
	(998)	684	3,648	3,334
Amounts credited to the asset revaluation reserve	16	-	-	16
Amounts credited to the income statement	-	468	407	875
Balance at 30 June 2011	(982)	1,152	4,055	4,225
Balance at 1 July 2011				
Disclosed separately on balance sheet	(982)	1,152	4,055	4,225
Amounts credited to foreign currency reserve	-	-	(32)	(32)
Amounts credited to the income statement	-	205	(31)	174
Balance at 30 June 2012	(982)	1,357	3,992	4,367

Other Temporary Differences arise from provisions for working capital. $672,000 (2011: $135,000) of the deferred tax asset is expected to be realised over the next 12 months.

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Parent				
Balance at 1 July 2010	-	-	1,517	1,517
Amounts charged to the income statement	-	-	152	152
Balance at 30 June 2011	-	-	1,669	1,669
Balance at 1 July 2011	-	-	1,669	1,669
Amounts charged to the income statement	-	-	80	80
Balance at 30 June 2012	-	-	1,749	1,749

The deferred tax asset is not expected to be realised over the next 12 months.

18. Investment in subsidiaries

Name of entity	Activities
Mercer Stainless Limited	Stainless steel fabricator, manufacturer / distributor of kitchen, bathroom and laundry products and distributor of medical products
Mercer Technologies Limited	Business transferred to Mercer Stainless Limited 1 July 2009
Mercer Middle East Limited	Distributor of medical equipment and products. This business was closed in 2010
Mercer Products Pty Limited	Distributor of sinks for the kitchen, bathroom and laundry
Mercer Technologies Pty Limited	Supplier of conveyors
Mercer Stainless Pty Limited	Formerly a manufacturer and supplier of conveyors.
Old HEP Limited	Formerly a distributor of photographic equipment. This business was sold 30 June 2009
Sulray Limited	Non trading holding company
Kuaka Holdings Limited	Non trading holding company

All subsidiaries have a 30 June balance date are wholly owned and the shares held in the subsidiaries are classed as ordinary.

All subsidiaries are located in New Zealand with the exception of Mercer Products Pty Limited, Mercer Stainless Pty Limited and Mercer Technologies Pty Limited which are located in Australia.

The Parent company's investment in subsidiary companies comprise shares and advances as follows:

	30 June 2012 $000	30 June 2011 $000
Shares at cost	17,845	17,845
Less impairment	(15,920)	(15,899)
	1,925	1,946
Advances to subsidiaries	34,335	34,869
Less impairment	(5,789)	(5,484)
	28,546	29,385
	30,471	31,331

Investments in subsidiaries are recorded at cost less impairment charges. During the year the investments in HE Perry Limited, Mercer Technologies Limited and Duratech Wholesale Limited were impaired by $327,000 (2011: $1,344,000). The impairment testing has been calculated as the carrying amount of the net assets of the above companies which no longer trade.

19. Trade and other payables

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Trade creditors	3,479	3,454	-	-
Sundry creditors and accruals	1,486	2,222	147	165
Total creditors and accruals	4,965	5,676	147	165

All trade and other payables are expected to mature within 12 months after balance date.

20. Borrowings

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Bank loans	4,850	6,152	4,850	6,152
Bank loans - Hire purchase	-	151	-	-
Other hire purchase loans	117	231	-	-
Advance from a subsidiary	-	-	1,428	1,343
Total borrowings	4,967	6,534	6,278	7,495
Expected maturity				
Within one year	600	6,304	2,028	7,495
Later than one year	4,367	230	4,250	-
	4,967	6,534	6,278	7,495

Bank loans

Bank loans are secured by a composite debenture over the Group's assets, supported by a registered first charge over the properties.

The Group has secured new banking facilities with BNZ to 30 March 2014. These comprise

- a committed cash advance facility of $1,000,000 which Mercer has a right to extend; and
- a loan facility of $4,000,000, with repayments of $50,000 per month falling due from April 2012.

The total amount is $4,850,000 at 30 June 2012 and the interest rate on the committed cash advance facility is 5.25% and the interest rate on the loan is 6.43%.

In addition, the Group had an overdraft facility of $1,000,000 at 30 June 2012.

The directors believe that it is appropriate to prepare the financial statements on a going concern basis.

Other loans

Non bank hire purchase loans have fixed interest charged at 11.52%.

Bank overdrafts

Bank overdrafts are secured by a composite debenture over the Group's assets supported by a registered first charge over the properties.

Hire Purchase Agreements

The total minimum lease payments at 30 June under hire purchase agreements were as follows:

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2011 $000	30 June 2012 $000
Less than one year	117	189	-	-
Between two and five years	-	193	-	-
Over five years	-	-	-	-
Present value of liability	**117**	**382**	**-**	**-**
Add future interest	13	35	-	-
Total minimum lease payments	**130**	**417**	**-**	**-**

21. Contributed equity

	Shares		$000	
Parent and Group	30 June 2012	30 June 2011	30 June 2012 $000	30 June 2011 $000
Issued and fully paid up capital	237,322,491	219,140,673	28,981	27,981
Balance at beginning of the year	219,140,673	39,132,263	27,981	19,437
Shares issued during the year	18,181,818	180,008,410	1,000	8,544
Balance at end of year	**237,322,491**	**219,140,673**	**28,981**	**27,981**

All ordinary shares are authorised and rank equally with one vote attached to each fully paid ordinary share. Shares have no par value. In 2011, the Company successfully organised a rights issue during the year which raised a net $8,544,000 in order to pay down debt and strengthen the balance sheet. In 2012, Rodger Shepherd, Chief Executive Officer, exercised share options which raised $1,000,000.

There are a total of 32,563,025 share options at an exercise price of between $0.07 and $0.085 per share which can be exercised in 2014. Mr R Shepherd is also entitled to 1% of the shares on the first, second and third anniversary of his appointment.

Murray Capital Rakaia Fund Ltd Partnership has 34,371,533 warrants at an exercise price of $0.05 per share which can be exercised before 16 December 2013 in parcels of at least 5,000,000 warrants. Any warrants not exercised by this date will expire. The fair value of warrants based on the last trading price at 30 June 2012 is $0.07 for each warrant.

22. Retained earnings and other reserves

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Foreign currency translation reserve				
Balance at beginning of the year	(115)	(333)	-	-
Net exchange difference on translation of overseas subsidiaries	(46)	218	-	-
Balance at the end of the year	**(161)**	**(115)**	**-**	**-**
Asset revaluation reserve				
Balance at beginning of the year	2,149	2,194	-	-
Revaluation of properties	-	-	-	-
Deferred tax movement	-	11	-	-
Transfer to retained earnings	(56)	(56)	-	-
Balance at the end of the year	**2,093**	**2,149**	**-**	**-**
Retained earnings				
Balance at beginning of the year	(13,598)	(4,302)	(2,551)	(816)
Deficit for the year	(962)	(9,352)	(526)	(1,735)
Dividends paid	-	-	-	-
Transfer from asset revaluation reserve	56	56	-	-
Balance at the end of the year	**(14,504)**	**(13,598)**	**(3,077)**	**(2,551)**

There are no restrictions on distribution of reserves. The foreign currency translation reserve is used to record foreign exchange differences arising on the translation of overseas subsidiaries. The asset revaluation reserve records revaluation movements on land and buildings.

23. Dividends

	30 June 2012 $000	30 June 2011 $000	30 June 2012 Cents	30 June 2011 Cents
	Total dividend		Dividend per share	
No dividend was paid (2011 Nil).	-	-	-	-

24. Reconciliation of surplus (deficit) after taxation with cash generated from operating activities

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Deficit after tax:	(962)	(9,352)	(526)	(1,735)
Items not involving cash flows:				
Depreciation	810	1,002	-	-
Amortisation of intangible assets	23	234	-	-
Impairment of goodwill	-	2,780	-	-
Impairment of patents and development assets	-	577	-	-
Impairment of inventories	16	321	-	-
Impairment of fixed assets	-	195	-	-
Deferred tax	(174)	(875)	(80)	(152)
Impairment of subsidiaries	-	-	327	1,344
Restructuring costs	-	2,021	-	-
Other non cash items	-	52	-	-
	675	6,307	247	1,192
Items classified as investing activities:				
Loss on sale of property, plant and equipment and investments	16	-	-	-
-				
Changes in working capital:				
Trade creditors and accruals	(818)	(501)	(18)	(27)
Trade debtors and prepayments	1,600	(9)	(5)	(34)
Inventory	1,413	1,238	-	-
Other	(35)	13	5	-
	2,160	741	(18)	(61)
Net cash outflow from operating activities	1,889	(2,304)	(297)	(604)

25. Earnings per share

Basic and diluted

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	30 June 2012	30 June 2011
Weighted average number of ordinary shares in issue:		
Basic	221,730,959	114,135,767
Diluted	287,540,238	128,457,239
Deficit attributable to the shareholders of the Company ($'000)	(962)	(9,352)
Basic earnings per share	(0.43 cents)	(8.19 cents)
Diluted earnings per share	(0.33 cents)	(7.28 cents)

26. Contingent liabilities

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Guarantee to bankers of bank overdraft facilities for subsidiaries to a limit of	1,000	500	1,000	500
Guarantees to bankers for credit card facilities up to a limit of	95	-	55	-
Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise	1,686	1,134	1,686	1,134
	2,781	1,634	2,741	1,634

27. Commitments

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Capital commitments				
Estimated commitments contracted for at balance date but not provided for	250	-	-	-
Operating lease commitments				
Non-cancellable				
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows				
Within one year	1,012	1,446	-	-
Later than one year but not later than five years	1,462	2,183	-	-
Later than five years	564	37	-	-
	3,038	3,666	-	-

The Group leases premises and plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject in certain circumstances to a rent review by the lessor. There are no renewal options or options to purchase in respect of plant and equipment held under operating lease.

28. Related party transactions

(a) Directors

The names of persons who were directors of the company at any time during the financial year are as follows: G Diack, SB Heal, P Hewitson, HJD Rolleston, R Rookes and R Shepherd.

(b) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2012 and the year ended 30 June 2011 is set out below. The key management personnel are all the directors of the company and the executives with the greatest authority for the strategic direction and management of the company.

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Short term benefits	1,473	1,290	199	171
Long term benefits	31	25		
Equity based payments	101	-	-	-
Total	1,605	1,315	199	171

(c) Transactions with directors and / or key management personnel

During the year ended 30 June 2012, the Group entered into a loan facility of $1,300,000 with certain related parties. A total of $850,000 was drawn down and fully repaid in the year. Interest was charged at a rate of 12% on the drawn down balance.

The total interest paid to related parties is set out below:

	Interest paid or payable $000
Gresham Finance Ltd, a company associated with HJD Rolleston, a director and a substantial security holder	22
Rakaia Finance Ltd, a company associated with R Rookes, a director	22
The Hewitson Family Trust, a trust associated with P Hewitson, a director	9
R D and T R Shepherd Ltd, a company associated with R Shepherd, Chief Executive Officer	4
Total	**57**

(d) Equity Instruments

(i) Share Options

Mr R Shepherd, Chief Executive Officer, was granted options to purchase:

- 18,181,818 shares at $0.055 per share on 2 February 2013;
- 14,285,714 shares at $0.070 per share on 2 February 2014 and
- 11,764 706 shares at $0.085 per share on 2 December 2014

Mr R Shepherd exercised his options to purchase 18,181,818 shares on 9 May 2012 following a meeting of the Shareholders which authorised these options to be purchased before the vesting date.

Mr T Blathwayt, Chief Financial Officer, was granted options to purchase:

- 3,571,429 shares at $0.070 per share on 2 February 2014; and
- 2,941,176 shares at $0.085 per share on 2 December 2014

(ii) Shares

Mr R Shepherd, will be issued shares equivalent to 1% of the shares on issue in Mercer Group Limited on the first, second and third anniversary from the date of the employment agreement on condition that R Shepherd is employed by the Company on each anniversary date.

The weighted average fair value of shares issued during the period was determined using the Black-Scholes valuation model at the date these arrangements were entered into. The significant inputs into the model at the date of the share based arrangements were an assumed equity value of $8.2 million; weighted average cost of capital of 13%; and volatility, based on industry norms, of 30%; and on the total number of fully diluted shares at that time.

(e) Transactions with other related parties

	Group		Parent	
	30 June 2012 $000	30 June 2011 $000	30 June 2012 $000	30 June 2011 $000
Income				
Interest charged to subsidiaries	-	-	603	616
Dividends received	-	-	-	-
Expenses				
Accounting fees incurred	-	-	56	59
Cash flows				
Advances to subsidiaries	-	-	-	(4,127)
Repayments from subsidiaries	-	-	618	1,699
Operating receipts from subsidiaries	-	-	603	633
Operating payments to subsidiaries	-	-	-	(83)

(f) Operating payments to subsidiaries

Subsidiaries				
Advances owed from subsidiaries	-	-	33,987	34,869
Advances owed to subsidiaries	-	-	1,428	1,343
Other amounts owed by subsidiaries	-	-	-	-

As disclosed in note 18, advances to subsidiaries were impaired by $327,000 (2011: $1,331,000). No other amounts have been written off or forgiven during the year. (2011: Nil).

(g) Terms and conditions of related party transactions

Subsidiary advances

Advances due to and from subsidiaries are unsecured and repayable on demand. However, at balance date the parent company had no intention to demand repayment within the next 12 months. The interest rate applicable in the twelve month period to 30 June 2012 was 7.5% (2011 7.5%).

29. Events after balance date

On 3rd July 2012, the Parent entered into an agreement to acquire 75% of certain owned and leased fixed assets, stock and work in progress which were to be placed into a new entity, Titan Slicer Limited for $1,000,000. This amount could be subject to change when the settlement accounts are finalised.

The Bank of New Zealand provided an additional loan of $500,000 and an additional temporary increase in overdraft facilities (which at the date of signing this report were $550,000 giving a total overdraft facility of $1,550,000) to fund the TItan investment.

30. Share based payments

Share options are granted to selected employees. The exercise price of the granted option exceeds the market price of the shares at the date of the agreement. The option price increases the further forward the vesting date is. Options are conditional on the employee being in service on the vesting date. The vesting date can be brought forward if agreed to by the Shareholders at a Special General Meeting.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	30 June 2012		30 June 2011	
	Average exercise price in cents per share option	Options ('000)	Average exercise price in cents per share option	Options ('000)
At 1 July	-	-	-	-
Granted	7.00	50,774	-	-
Forfeited	-	-	-	-
Exercised	5.50	18,182	-	-
Expired	-	-	-	-
At 30 June	7.67	32,563	-	-

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant-date	Vesting expiry date	Exercise price in cents per share option	Shares ('000) 2012	Shares ('000) 2011
Nov 11 / Jan 12	2 February 2014	7.00	17,857	-
Nov 11 / Jan 12	2 December 2014	8.50	14,706	-
			32,563	-

Mercer Group Limited

Auditors' Report

Independent Auditors' Report

to the shareholders of Mercer Group Limited

Report on the Financial Statements

We have audited the financial statements of Mercer Group Limited ("the Company") on pages 16 to 57, which comprise the balance sheets as at 30 June 2012, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Mercer Group Limited or any of its subsidiaries other than in our capacities as providers of audit and tax compliance and other assurance services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report

Mercer Group Limited

Opinion

In our opinion, the financial statements on pages 16 to 57:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards ; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2012, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2012:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants Auckland
26 September 2012

MERCER GROUP LIMITED

www.mercers.co.nz