

MERCER GROUP LIMITED

INTERIM REPORT

SIX MONTHS ENDED 31 DECEMBER 2013

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MERCER GROUP LIMITED
CHIEF EXECUTIVE OFFICER'S REPORT

S-Clave License agreement highlight for Mercer Group

Mercer has reported a surplus after tax of \$0.4m in the six months to 31 December 2013 versus \$0.6m in the prior year. This was generated off a trading profit (Earnings Before Interest Tax, Depreciation and Amortisation, EBITDA)* of \$1.1m for the six months to 31 December 2013 (2012: \$1.4m). This result was underpinned by the sale of an S-Clave license to a large North American medical services company.

Highlights over the six month period include:

- Signing an S-Clave license agreement for North America;
- Securing the installations for Titan equipment to two new very large North American customers, due to take place in March;
- Secured \$600k of New Zealand Trade & Enterprise funding across the next two years to accelerate market penetration in North America; and
- Completing the tight-radius sinkware upgrade and starting to see the sales growth resulting.

Stainless Fabrication

This division comprises the fabrication workshops in Christchurch and New Plymouth, the Brisbane office, and Titan Slicers. The division has reported sales revenue of \$14.0m, some \$2.8m lower than last year. The Segment EBITDA was \$0.6m compared to \$2.0m in the same six month period last year.

The lower sales and profitability compared to the prior year was due in part to the large Maple Leaf Foods Titan order in the previous year. However the two workshops in Christchurch and New Plymouth also had lower earnings due to a small number of jobs not achieving expected margins. In addition, the introduction of Titan manufacturing in the Christchurch workshop from Nelson has taken longer than we had forecast and we have increased staffing levels in advance of expected Titan and Mercer equipment growth.

The current order book is full through to the end of June. We anticipate a stronger second half result from this division but we will continue to invest in people, particularly around Titan and other Mercer owned equipment.

Mercer Interiors

This division manufactures in New Zealand and supplies sinks, basins, tubs, toilets, laminate, solid surface material and other similar products to joiners, merchants, fabricators and other manufacturers. Mercer distributes the Wilsonart brand of laminate in the NZ market.

Overall revenue is \$4.7m, up by \$0.7m over last year. EBITDA was \$0.1m, flat on last year due to the staffing increases as we continue to build for the future. In November, the upgrade to our Christchurch sinkware plant to manufacture tight radius sinks was opened by the Prime Minister, John Key. Demand for the new sinkware is strong and we are gearing up to run a second shift at the plant in April 2014 once new production staff are secured.

In Australia, Mercer appointed Argent as our primary distributor, which is showing promising signs at this early stage. Unfortunately our secondary distributor was suddenly put into administration in January owing Mercer money.

* Reconciliation of surplus after tax to EBITDA by division is set out in Note 3

MERCER GROUP LIMITED
CHIEF EXECUTIVE OFFICER'S REPORT

Mercer Medical

Mercer Medical is a division supplying equipment and related products and services for sterilization, washing and disinfection. During the period, Mercer has increased its presence in the NZ market and made a number of MMM sterilizer and washer equipment sales. We expect this to continue to grow in the second half.

Corporate

This division includes Mercer Technologies which generated a strong result, signing a license agreement for our S-Clave technology with a large North American medical services company during the half year. We are now in the process of applying for funding support to assist us funding the next phase of the project in New Zealand. This will allow us to hire more research and development staff and ensure we develop the S-Clave technology for all international markets. The potential of this technology is significant to the value of the Company, albeit sales into hospitals are likely to be at least two years away.

Funding

During the six month period, Murray Capital Rakaia Fund Ltd Partnership exercised 34,371,533 warrants at a price of \$0.05 per share and subsequent to the period end on 2 February 2014, management exercised 17,857,142 shares at a price of \$0.07 per share. This funding supports the near term organic growth aspirations of Mercer.

Dividends

The Directors have determined that it is not appropriate to pay an interim dividend.

Outlook

The Directors believe the Company should continue to invest in people and technology to drive sales growth and increase profitability in the medium term. The investment in people will impact earnings for 12 months as we front load the expense to lift medium term performance. Investment is currently being focused on S-Clave, Titan and Interiors. We believe that investment in these projects will drive shareholder value over time. We are currently forecasting EBITDA for the financial year of around \$2m, although this could be exceeded if the Titan installations that are beginning in North America convert to follow on sales before the end of June.

MERCER GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Notes	Unaudited 6 months ended 31 December 2013 \$'000	Unaudited 6 months ended 31 December 2012 \$'000
Revenue			
Sale of goods and contract revenue	3	21,294	21,844
Other income		58	-
Total income		21,352	21,844
Expenses			
Cost of inventory sold		(9,889)	(10,438)
Salaries and wages		(6,752)	(6,155)
Rental and operating lease		(598)	(681)
Depreciation and amortisation		(415)	(424)
Other expenses		(3,005)	(3,201)
Surplus before finance cost		693	945
Finance costs, net		(231)	(198)
Share of profits of associate		15	59
Surplus before taxation		477	806
Income tax charge		(70)	(217)
Surplus after taxation		407	589
Other comprehensive income			
Items that may be subsequently charged or credited to profit and loss			
Currency translation differences		(213)	(19)
Other comprehensive income, net of tax		(213)	(19)
Total comprehensive income for the period		194	570
Attributable to:			
- Owners of the parent		179	461
- Non-controlling interest		15	109
Total		194	570
Basic earnings per share			
Surplus per share attributable to shareholders of the company (cents)		0.16	0.18
Fully diluted earnings per share			
Surplus per share attributable to shareholders of the company (cents)		0.13	0.14
Net tangible assets per share (cents)		5.07	5.22

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

MERCER GROUP LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Unaudited 31 December 2013 \$'000	Audited 30 June 2013 \$'000
ASSETS		
Current assets		
Cash and bank balances	736	307
Accounts receivable	5,163	5,925
Other debtors and prepayments	620	289
Inventories	7,021	5,362
Total current assets	13,540	11,883
Non-current assets		
Other debtors and prepayments	858	368
Investment in associate	15	-
Property, plant and equipment	9,071	9,129
Intangible assets	5,820	5,754
Deferred tax asset	3,882	3,952
Total non-current assets	19,646	19,203
Total assets	33,186	31,086
LIABILITIES		
Current liabilities		
Bank overdraft	-	644
Trade and other payables	6,185	5,955
Employee entitlements	771	917
Borrowings	775	775
Total current liabilities	7,731	8,291
Non-current liabilities		
Borrowings	6,273	5,562
Total liabilities	14,004	13,853
NET ASSETS	19,182	17,233
EQUITY		
Contributed equity	30,863	29,084
Other reserves	1,767	2,032
Retained earnings	(13,468)	(13,888)
	19,162	17,228
Non-controlling interest	20	5
TOTAL EQUITY	19,182	17,233

The above statements of Financial Position should be read with the accompanying notes.

MERCER GROUP LIMITED
CONSOLIDATED STATEMENTS OF MOVEMENTS IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

Note	Attributable to the owners of the Parent							
	Equity \$'000	Retained earnings \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Asset revaluation reserve \$'000	Total equity \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2012	28,981	(14,504)	-	(161)	2,093	16,409	-	16,409
Surplus for the period	-	480	-	-	-	480	109	589
Asset revaluation reserve movement	-	28	-	-	(28)	-	-	-
Foreign currency translation reserve movement	-	-	-	(19)	-	(19)	-	(19)
Total comprehensive income for the period	-	508	-	(19)	(28)	461	109	570
Acquisition of subsidiary	-	-	-	-	-	-	40	40
Value of employee services	-	80	-	-	-	80	-	80
Issue of new shares	85	(85)	-	-	-	-	-	-
Balance at 31 December 2012 (unaudited)	29,066	(14,001)	-	(180)	2,065	16,950	149	17,099
Balance at 1 July 2013	29,084	(13,888)	100	(105)	2,037	17,228	5	17,233
Surplus for the period	-	392	-	-	-	392	15	407
Asset revaluation reserve movement	-	28	-	-	(28)	-	-	-
Foreign currency translation reserve movement	-	-	-	(213)	-	(213)	-	(213)
Total comprehensive income for the period	-	420	-	(213)	(28)	179	15	194
Value of employee services	-	-	58	-	-	58	-	58
Issue of new shares 4(b)	1,779	-	(82)	-	-	1,697	-	1,697
Balance at 31 December 2013 (unaudited)	30,863	(13,468)	76	(318)	2,009	19,162	20	19,182

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

MERCER GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Unaudited 31 December 2013 \$'000	Unaudited 31 December 2012 \$'000
Operating activities		
Surplus after tax	407	570
Depreciation and amortisation	415	424
Deferred tax	70	217
Gain on sale of patents and development activities	(125)	-
Other non-cash items	58	72
Changes in working capital	(1,893)	(1,327)
Net cash (outflow) inflow from operating activities	(1,068)	44
Investing activities		
Cash was provided from (to):		
Purchase of property, plant and equipment	(355)	(308)
Proceeds from sale of patents and development activities	250	-
Purchase of patents and development activities	(193)	(177)
Acquisition of subsidiary	-	(750)
Net cash outflow from investing activities	(298)	(1,235)
Financing activities		
Cash was provided from (to):		
Issue of new shares	1,718	-
New borrowings	1,100	500
Repayment of borrowings	(389)	(421)
Net cash inflow (outflow) from financing activities	2,429	79
Net increase (decrease) in cash held	1,063	(1,112)
Cash at the beginning of the year	(337)	648
Effect of exchange rate changes	10	
Cash and bank balances less overdraft at the end of the period	736	(464)
Cash balance	736	236
Bank overdraft	-	(700)
Cash and bank balances less overdraft at the end of the period	736	(464)

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

The Statements of Cash Flows are exclusive of GST.

MERCER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

1. General information

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.

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 and majority owned subsidiaries as disclosed in Note 18 of the Annual Report. 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.
- Stainless steel fabrication and equipment manufacture and supply by Mercer Stainless workshops in Christchurch, New Plymouth, Nelson and 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 February 2014.

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 in the Annual Report. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The condensed consolidated interim financial information for the six months ended 31 December 2013 has been prepared in accordance with New Zealand equivalent to International Accounting standards NZ IAS34 and IAS 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the Annual Financial Statements for the year ended 30 June 2013, which were prepared in accordance with New Zealand Generally Accepted Accounting Practice (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.

(b) 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 2013. Those accounting policies are set out in the Mercer Group Limited 2013 Annual Report.

(c) New standards and amendment

New standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2013 and which are relevant to the Group are set out in the Annual Report. These amendments have not resulted in material accounting or disclosure changes for the Group.

Standards and interpretations of relevance to the Group which were in issue but not yet effective and had not been early adopted are also set out in the Annual Report. The directors anticipate that the adoption of those Standards and Interpretations in future periods will have no material impact on the financial statements of the Group other than disclosures.

3. Segmental Reporting

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

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.

	31 December 2013 (unaudited)			31 December 2012 (unaudited)		
	\$'000			\$'000		
	Total sales	Segment result	Segment assets	Total sales	Segment result	Segment assets
Stainless Fabrication	14,011	642	9,222	16,828	1,972	9,836
Mercer Interiors	4,672	64	6,072	3,942	105	7,235
Mercer Medical	1,827	97	1,902	1,163	16	1,041
Corporate	996	305	15,990	-	(724)	11,300
Intersegment eliminations	(212)	-	-	(94)	-	-
Total sales, EBITDA, assets	21,294	1,108	33,186	21,844	1,369	29,412
Depreciation and amortization	-	(415)	-	-	(424)	-
Finance costs	-	(231)	-	-	(198)	-
Income tax charge	-	(70)	-	-	(217)	-
Share of profits (losses) of associate	-	15	-	-	59	-
Total Group	21,294	407	33,186	21,844	589	29,412

It is not practicable to provide an analysis of sales revenue or result by geographical location.

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

	Unaudited 31 December 2013 \$'000	Audited 30 June 2013 \$'000
New Zealand	15,640	15,098
Australia	124	153
Total	15,764	15,251

4. Related Party Transactions

(a) Directors

The names of persons who were directors of the Company at any time during the period are as follows:

G Diack, HJD Rolleston, R Rookes, R Shepherd and P Smart.

(b) Warrants

Murray Capital Rakaia Fund Ltd Partnership exercised 34,371,533 warrants at an exercise price of \$0.05 per share on 1 November 2013. There are no further warrants outstanding

(c) Options

R Shepherd, Chief Executive Officer has share entitlement equivalent to 1.00% of the total shares on issue (immediately prior to issue) on the first, second and third anniversary of appointment. R Shepherd took up his first entitlement in the six month period ended 31 December 2012 with shares issued on 8 November 2012. He took up his second entitlement in the six month period ended 31 December 2013 with shares issued on 28 November 2013.

Subsequent to the period end on 2 February 2014, R Shepherd exercised 14,285,714 shares and T Blathwayt, Chief Financial Officer, exercised 3,571,429 shares at \$0.070 per share on 2 February 2014.

R Shepherd has options to purchase:

- 11,764 706 shares at \$0.085 per share on 2 December 2014.

T Blathwayt has options to purchase:

- 2,941,176 shares at \$0.085 per share on 2 December 2014.

5. Dividends

During the six months ended 31 December 2013, Mercer Group paid no dividends (six months ended 31 December 2012: \$Nil).

6. Commitments

The Group had no commitments for future capital expenditure as at 31 December 2013 (June 2013: \$39,000).