Mercer

MERCER GROUP LIMITED

2014

Annual Report

Contents

Directors' Report
For the year ended 30 June 2014

Chairman's Review

The 2014 year has been a year of investment and repositioning for future growth. Although our reported result was less than our original expectation, we are pleased with developments of our future value initiatives, particularly the international licencing of our S-Clave technology, and the market acceptance of the Titan Slicer range of products.

2014 saw consolidated revenues up $2.0 million from $38.8 million in 2013 to $40.8 million this year. The group EBITDA was $1.0 million, which is down from $2.5million last year. This was consistent with the revised guidance to shareholders in May of this year.

We are continuing to drive efficient performance in our operating divisions. As part of this we have invested in strengthening the leadership and market performance capabilities in these businesses. We welcome to the company Ivan Ramsey who is leading the Interiors business and Richard Fletcher who is leading the New Plymouth Stainless fabrication business.

In addition, we have invested further in our Titan Slicer, new sinkware range and S-Clave sterilisation businesses. We are excited at the near term market potential of Titan Slicers and have expectations of a strong future performance from this business. The longer term potential of the S-Clave product has attracted both investment support from the Callaghan Institute and significantly, the international licencing to a large North American company for future market penetration of the USA market. The Titan slicers and S-Clave further extend the reach of the Mercer brands into the international and North American markets.

I would like to make particular mention of the significant gains in the development of a safe working environment and operating culture. In August the Group celebrated one year without any Lost Time Injuries. All executives and staff are to be congratulated for this achievement.

The Directors regard the 2014 year as one of development and repositioning of all businesses in the group.

Garry Diack.

Directors' Report
For the year ended 30 June 2014

CEO review

Overview of 2014 Financial Year

The focus in the 2014 year has been on further developing the technologies Mercer owns that can lift export earnings in particular, over coming years. Following a review of the various technologies and business units that comprise Mercer, we decided to invest in three main projects. These are the S-Clave, Titan slicers and a new modern Sinkware range.

Mercer has invested, both capital and people, to develop these three projects, along with some other smaller projects, and although they have taken longer to develop than we had expected, we continue to believe these are the right projects to concentrate our resources on. The delays have affected our earnings in the year ended 30 June 2014, with considerable staff and associated costs being added without as much revenue uplift as had been forecast.

Nevertheless, our group income, at $40.8m, was the highest it has been for many years, and we continue to believe in the growth plan the company is pursuing.

I outlined a number of objectives for the 2014 year at the last annual general meeting, and have reviewed our performance against those objectives in the following table:

2014 objectives		2014 outcomes
Increase profitability over the prior year	✗	EBITDA of $1 million was achieved, which is well down on the $2.5 million from the previous year. This is due to increased staff and other costs taken on in advance of revenue growth
Meet banking covenants	✓	Achieved
LTIFR tracking below 10 for 2014	✓	Achieved LTIFR of six for the year
Secure funding for the next stage of S-Clave development	✓	Mercer has been allocated $1 million of grant funding from Callaghan Institute and has decided to invest the balance itself from increased BNZ debt facility and equity
$3m of headroom in banking facility by Year-end	✓	Achieved

* LTIFR (number of Lost Time Injuries per million man hours worked)

Directors' Report
For the year ended 30 June 2014

Financial performance

The following table shows the growth of income split across the divisions of the Group over the past few years:

	30 June 2014 $'000	30 June 2013 $'000	30 June 2012 $'000
Revenue			
Stainless Fabrication division	27,730	28,080	21,067
Mercer Interiors division	8,368	8,150	8,578
Mercer Medical division	3,581	2,679	3,895
Corporate	1,028	-	30
Intersegment eliminations	(336)	(148)	(284)
Sale of goods and contract revenue	40,371	38,761	33,286
Other income	431	12	24
Total income	40,802	38,773	33,310

Sale of goods and contract revenue growth has been 21.2% for the two year period from 2012 to 2014, and margins have held up well, but costs have also risen to fund this, and future, growth. Salaries and wages have increased by $3.7 million across the two years. The following table analyses this in greater detail:

	30 June 2014 $'000	30 June 2013 $'000	30 June 2012 $'000
Total income	40,802	38,773	33,310
Expenses			
Changes in inventories of finished goods and work in progress	(18,607)	(17,708)	(17,022)
Salaries and wages	(14,064)	(12,149)	(10,392)
Rental and operating leases	(1,285)	(1,426)	(1,240)
Other expenses	(5,875)	(4,989)	(4,559)
EBITDA	971	2,501	97
Depreciation	(864)	(823)	(810)
Amortisation	(37)	(30)	(23)
Surplus (deficit) before finance costs	70	1,648	(736)
Finance costs	(505)	(453)	(400)
Share of profits (losses) of associate	11	(2)	-
(Deficit) surplus before taxation	(424)	1,193	(1,136)
Income tax (charge) credit	(59)	(415)	174
(Deficit) surplus after taxation	(483)	778	(962)

Funding and cash flow

During the year, there was $3.0 million equity invested into Mercer, plus an increase in the bank facility of $0.9 million. The bank facility with Bank of New Zealand is a $4m committed cash advance facility, term debt of $4.1 million and an overdraft of $1.5 million. At 30 June 2014, Mercer had undrawn facilities of $3.0 million, albeit this can fluctuate significantly within a month.

The increased funding is being used to finance the growth of the business both in terms of working capital and selective capital investment in the three main projects.

Directors' Report
For the year ended 30 June 2014

Strategic direction

Mercer's vision: To provide innovative and high quality Stainless, Interior and Medical solutions to the World

To achieve our vision, we need to continue to build on our core strengths and New Zealand expertise in stainless steel fabrication, manufacture of food processing equipment, sinkware and medical sterilisation, underpinned by best practice in research and development and finance functions. Our primary focus is on developing capability in the areas that have an export opportunity.

The Company has chosen three primary projects to invest in over the past two years:

1. **Titan Slicers**
   We have set a target to sell at least 12 slicers in the 2015 financial year, and supported by New Zeland Trade and Enterprise, we have invested in sales and marketing staff and greater design resource to help achieve this. We are pleased to have recently secured Nu-Meats as our North American distributor: Nu-Meats the scale and credibility in the North American market to support our sales effort and provide after-sales support. Titan now has three operating reference sites in North America, and we are very confident of our Titan strategy.

2. **S-Clave Sterilisation**
   Our biggest success and creation of value during the year ended 30 June 2014, was the signing of a license agreement with a large North American sterilisation company for the S-Clave technology. Following this, we secured a $1 million grant from Callaghan Institute and we are investing a similar amount to further develop this technology in New Zealand, with a goal of taking it to market in two years' time.

3. **New Sinkware range**
   We decided over 18 months ago that the sinkware range we were manufacturing was very dated, and that we needed to develop a more modern offering. A project to press tight radius sinkware was established and around $0.3 million invested into new tooling. This project has taken longer and proved to be more difficult to implement that we had anticipated, but we are very pleased with the modern seamless sinks we are now pressing and expect growth in sales during the 2015 financial year as a result of this project.

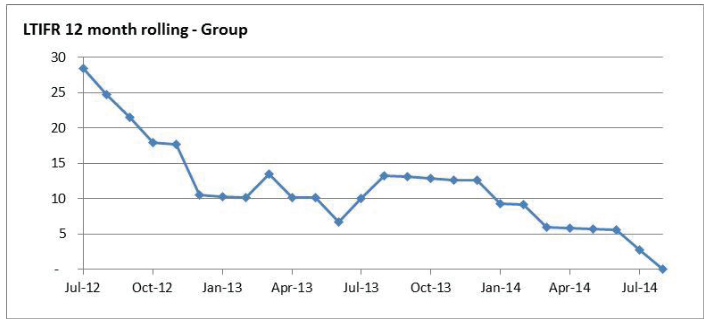
Recruitment and retention

Whilst we have invested in new projects that we believe will make a difference to Mercer, we have also invested in additional staff. We need to continue to improve the performance of the core businesses, and this requires in some instances to secure new staff, and develop new business processes and market offerings. More work is needed in this area but we continue to believe that staff is the most important asset of the business, and we continue to seek high quality people. We also continue to invest in training and development of key staff.

Staffing levels across the group have continued to rise from 161 at 30 June 2012 to 187 at 30 June 2013 to 201 at 30 June 2014. Mercer has made two important appointments over the past six months, the first was the hiring of Ivan Ramsey to run the Interiors division. The second being the recruitment of Richard Fletcher to run Stainless New Plymouth. We expect both these appointments will lead to improving results in the core businesses.

Health and Safety

Mercer's commitment to health and safety in the workplace continues. The Lost Time Injury Frequency Rate (LTIFR) has fallen over the course of my tenure, and was six for the full 2014 year. The chart below plots the decline in LTIFR on a rolling annual basis.

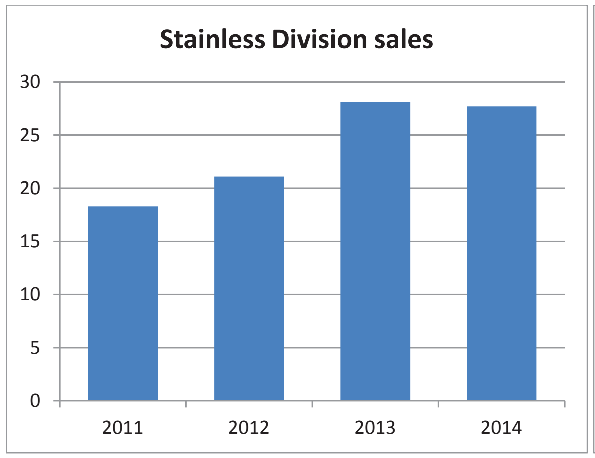


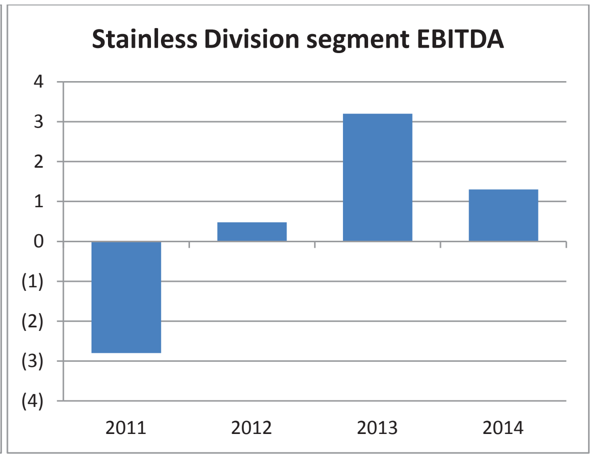
The last Lost Time Injury (LTI) for the Company was in August 2013, and so we recently celebrated running for 12 months without an LTI. Despite this, we have recently hired a staff member to focus on continuing to improve Health and Safety across the company. Our next overall target is to achieve secondary level ACC accreditation, which we are aiming to achieve in 2015.

Stainless Division overview

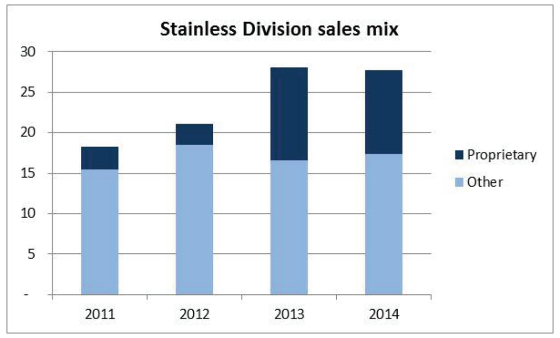
The Stainless division comprises workshops in Christchurch and New Plymouth with a sales office in Auckland, and branches in Nelson and Brisbane, Australia. Titan Slicers forms part of this division.

During the 2014 financial year, the Christchurch operation was expanded to properly allow for the manufacture of Titan slicers at that site. Previously, Titan had outsourced a lot of the manufacture to various non-Mercer companies. We believe that bringing this function in-house and recruiting management and staff to build this equipment is critical to the longer-term success of Titan. This change did affect the earnings in the 2014 financial year, and we expect to see an improvement in the year ending 30 June 2015 now that this change has been implemented.

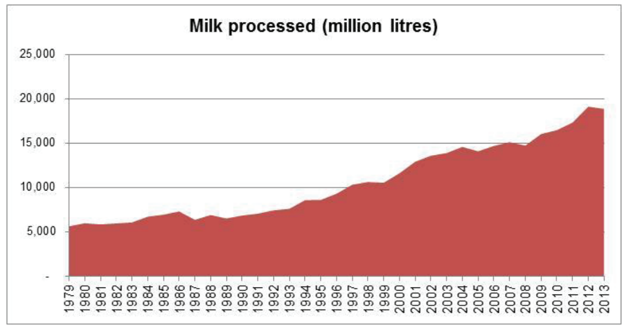




The Stainless division operates in a range of industries. The key industry sectors are New Zealand milk plants, Australasian meat, international meat (pork) processing, international cheese and transport. Our strategy for the Stainless division is to lessen the dependence on third party fabrication for the dairy sector and to complement this with a greater share of sales of Mercer owned equipment. We are making good progress, as illustrated below, and expect this trend to continue:



- The investment in the dairy sector has been strong over the past 6-7 years, with milk processed in million litres growing at 5.1% per annum from 2007-2013.



Source: New Zealand Dairy Statistics 2012-13

Directors' Report
For the year ended 30 June 2014

- Investment in the dairy sector is expected to continue and we have work confirmed over the next 12 months comprising:
  - Fonterra Pahiatua dairy expansion
  - Synlait dryer project
  - Westland Milk Products upgrade
  - Open Country dairy upgrade
  - Fonterra Lichfield dairy project

- A portion of the division's revenue is dependent on the meat sector with the sale of carton erectors, lidders, and associated conveyor systems (Mercer brands these machines as Aico). These are predominantly sold into the Australian market where we are the market leader with over 50% share of erectors, lidders and compactors. The outlook for this sector continues to be strong with a good pipeline of opportunities. We also expect the New Zealand meat processors will at some stage start to invest in further equipment, given a prolonged period of under-investment.

Aico machinery

- Mercer has for many years sold the BetaVac internationally into the cheese sector. It is the proven world leader in vacuum packaging blocks of cheese. We are pleased to have sold our first BetaTest unit into North America, and we believe there is an opportunity to sell many more. The BetaTest is a Mercer patented leak detection system that trails the BetaVac to test for any leaks in the bags. Mercer has previously sold a cartonless cheese system into Australia, and we have considerable interest in this concept again. We have started to put further resource into this project as it is a logical extension to the BetaVac range of cheese equipment.

- Mercer has an increasing focus on the liquid transport sector. This includes building tankers for moving milk, juices and wine around the country. In addition Mercer owns the patented PV Valve that is sold across the sector. PV valve trials are currently underway in Australia and North America, that could significantly increase sales of this product in coming years.

Tankers for Symons Transport

- Titan comprises a range of slicing equipment that has a application in a number of market sectors, but is primarily focused on the North American pork processing sector. This is a sector that is very sizeable in the US with revenues of around $100 billion (source: New Zealand Trade and Enterprise). We believe that the total market size for slicers and associated machinery in North America to be around $200 million per annum. There is consolidation in the pork sector and the cost of meat has risen rapidly. This makes the ability to rapidly slice, grade and weigh bacon critical. Titan has developed and patented technology that offers world leading performance.

Packers at Maple Leaf, Canada

Titan ivs500 slicer

Much of the focus for the Stainless division has been to develop in-house expertise around the manufacture of these patent protected, sophisticated slicers, and to build the team in Titan to sell them in North America. This has added cost to the division in the year ended 30 June 2014, and we didn't achieve the revenue uplift to justify it. However, our expectation is to sell at least 12 slicers in the 2015 financial year and this will translate into improved earnings for this division.

Interiors Division overview

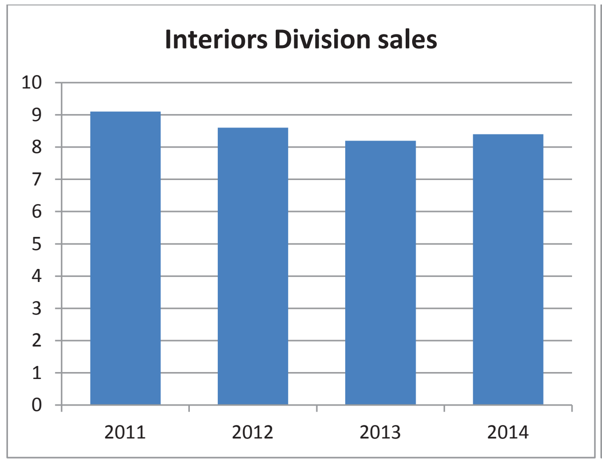
The Interiors division has a well-equipped manufacturing facility in Christchurch and sells sinks, basins, tubs, toilets, laminate and solid surface material and similar products to joiners, merchants, fabricators and other manufacturers in New Zealand. Mercer Interiors is the New Zealand representative of Wilsonart laminate, the world's leading brand of laminate.

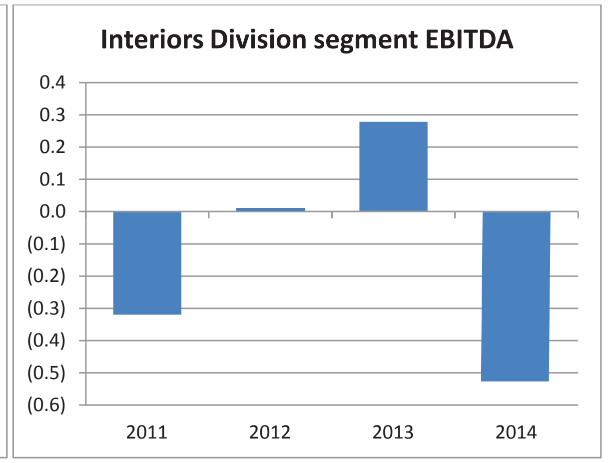
The focus during the year was to upgrade our sales team to compete harder in the market, and to improve the performance of the sinkware plant to lift production and allow us to sell the new tight radius seamless sinks. We have taken longer and incurred more cost to achieve this than anticipated, due to the technical nature of pressing such tight radius sinks. Nevertheless we are pleased with the new sinks and have received high praise from Australian and NZ customers. A highlight was the Prime Minister, John Key, opening the expanded Christchurch facility in November 2013.

John Key at the opening of the expanded Christchurch facility

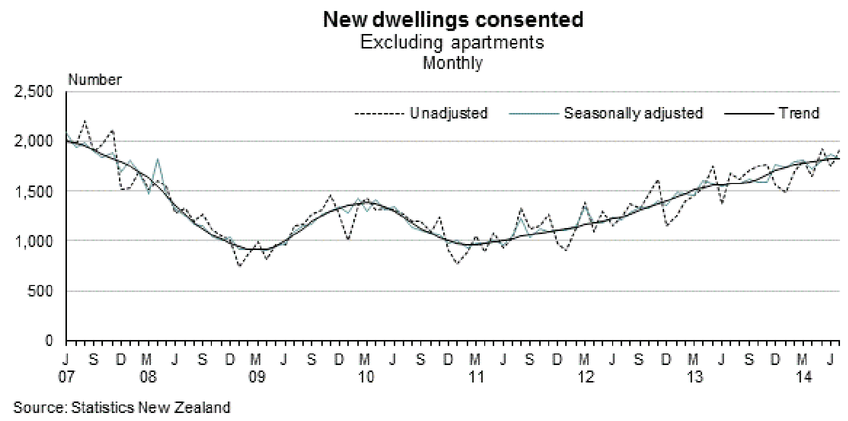
New tight radius pressed sink

The Revenue and EBITDA performance over time is as follows:





The primary driver of demand in this sector is Housing Consents. These have been on the rise over recent years, and we expect this will continue, helped by the building recovery in Christchurch.



Mercer represents Wilsonart laminates, which are an international leading brand of high quality laminate. To grow this sector further, Mercer is moving more into the commercial sector and blanks market.

Wilsonart laminate benchtop and walls. Mercer stainless steel bowl

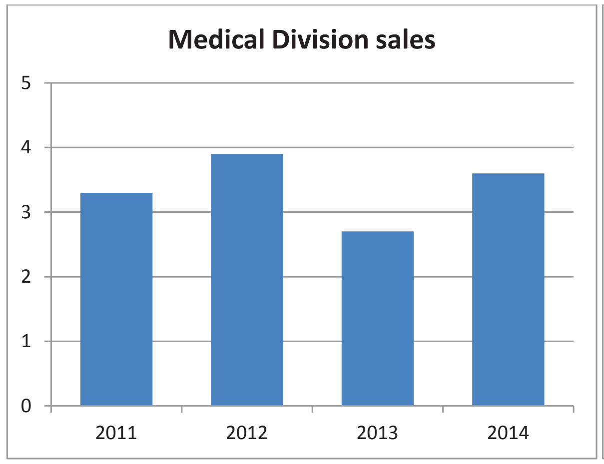
As noted last year, we have found the Australian market difficult to penetrate and one of our distributors went into administration during the year owing us around $A150,000. We have scaled back our resources in Australia somewhat and appointed Argent Australia Pty Limited as our main distribution channel. The Australian Government has recently issued an anti-dumping notice, in which the Commissioner has determined that "there appears to be sufficient grounds for the publication of a dumping duty notice in respect of sinks exported to Australia from China". The duty is collectable from 13 August 2014, and ranges from 19% to 61%, depending on the supplier. This development is positive for Mercer, as our New Zealand manufactured sinks are now more competitively priced in the Australian market.

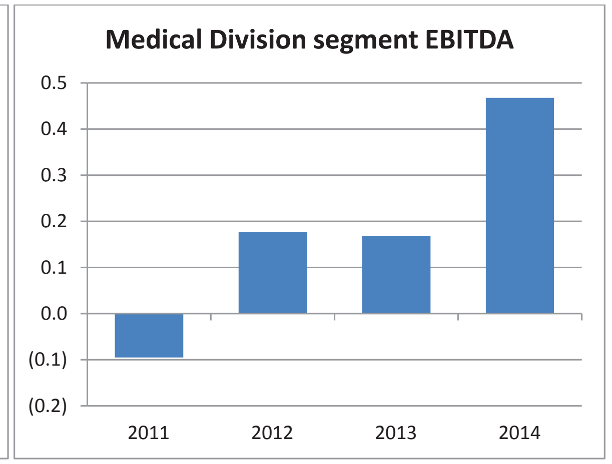
Directors' Report
For the year ended 30 June 2014

Medical Division overview

Mercer Medical supplies equipment and related products and services for sterilisation, washing and disinfection. The Mercer team of expert technicians is located around New Zealand, servicing a range of Centralised Sterile Services Department (CSSD) equipment. Mercer provides a range of consumables to complement the washers and sterilisers.

Revenue growth was very good in the year ended 30 June 2014, and we expect good growth again in the 2015 financial year.





Mercer Medical has concentrated on introducing the MMM range of sterilisers and washers into the market and now has a number of successful sites running this equipment. MMM is a world leading manufacturer of sterilisers. Mercer was recently named distributor of the year by MMM.

Rodger Shepherd (CEO), Benedict Koller (MMM), Charles Brothers (General Manager, Medical Division), Peter Lindner (MMM)

MMM Uniclean PLII pass through washer disinfector

Towards the end of the 2014 financial year, we secured the remaining business and assets of Med-Chem, which was in liquidation. For a small outlay, it has provided Mercer some more scale in NZ and an increased breadth of equipment to sell into the hospital sector.

Technologies Division overview

Two years ago we established a division to focus on new Technologies (R&D) and recruited a General Manager to focus on this part of the business. Over the past 12 months, Mercer has increased the level of investment and resource employed in research and development, and is continuing to do so after the $1 million grant from the Callaghan Institute for the S-Clave.

The main focus this year has been on three projects; S-Clave, Ultraclave and BetaTest leak detector.

- The sale of an S-Clave license to a large North America Corporation was the primary success of Mercer Technologies this year. We have since formulated a plan to get this technology to market in two years, and started to invest and execute against this plan in New Zealand. The S-Clave technology is patented in many countries, and Mercer has just developed and submitted an application for a further patent, which further extends and defends our intellectual property in this area. The S-Clave technology allows items to be sterilised inside a non-porous bag or container and then sealed so that the product can be moved around in a safe manner. Hospital Acquired Infections are now thought to be the fourth largest cause of deaths in the USA, and movement of items in a more sterile manner will help to lessen this impact.
- The Ultraclave, developed by Mercer, is a compact, small footprint, cost effective steriliser used in dental and small medical centres. Mercer has developed a lighter, small footprint, more cost effective steriliser. The development has taken a little longer than was planned but we are now pleased with the machine and following recent successful customer trials, a small commercial production run is underway. We expect this will ramp up in coming years, with the potential it will be rolled out to overseas markets in the future with initial interest from China and USA.
- The BetaTest leak detector is a new addition to the BetaVac cheese packaging range that allows customers to check there is no leak in the vacuum packed bag through innovative (patent pending) technology. This product has now been moved out of Technologies and, is being sold in the Stainless division.

Mercer has a number of other projects in its pipeline which we have deemed to be a lower priority, ranging from early stage development to commercialising existing intellectual property further. The main focus of our research and development projects is either in the healthcare sector or the wider dairy sector. One example of a project that is being elevated in 2015 is the concept of a cartonless cheese packaging system. Mercer has previously sold one of these systems into Australia, and we have world-wide interest in the concept.

Outlook for 2015

Mercer was focused on improving operating performance in the year ended 30 June 2014 and fixing a number of key aspects of the underlying business units. We believe we have made good progress and expect to see the benefits of this much improved trading performance from its business units in 2015.

At the same time, we have continued to invest heavily into Titan Slicers and S-Clave in particular, to move these two exciting growth driven forward. Earnings resulting from these investments will be more immediate for Titan, whilst S-Clave will take a few years to provide significant earnings uplift.

In the coming year, we are anticipating improved earnings over 2014 as a result of continued revenue growth. Mercer is targeting revenue growth of at least 10% over 2014. We plan to invest around $1.2 million in plant and equipment and development assets in the year ending 30 June 2015. Mercer does not expect to pay a dividend in 2015 as it continues to invest in the future profitable growth of the business.

Rodger Shepherd
Chief Executive Officer

Board of Directors

Director profiles

Name and date appointed	Role	Matters entered in the interests register	Shareholdings at 30th June 2014
Garry Diack 6th May 2011	Non-executive, independent Chairman, chair of the remuneration committee, and member of the audit committee.	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • Tait Limited	115,320 shares held beneficially
Humphry Rolleston 6th August 1986	Non-executive and member of the remuneration committee	Declared directorships with companies that might 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	35,714,470 shares held beneficially Associated persons of Mr Rolleston held 49,732,212 shares Mr Rolleston is a minority shareholder of Murray Capital Rakaia Fund Limited Partnership which at 30th June 2013 held 100,000,000 shares
Richard Rookes 21st February 2011	Non-executive and member of the audit committee	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • CommArc Consulting Limited Mr Rookes is a shareholder of: • Murray & Company Limited • Murray Capital Limited	Mr Rookes is a related party of Murray Capital Rakaia Fund Limited Partnership which at 30th June 2014 held 100,000,000 shares
Rodger Shepherd 25th May 2012 (Board). Appointed CEO in August 2011	Executive	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • Triplex Management Limited • RD & TR Shepherd Limited • Unit2Go Limited • Honnor Drillers Holding Limited • Honnor Drilling Limited • Affinity ID Limited	16,285,333 shares held beneficially Associated persons of Mr Shepherd held 14,285,714 shares Options to a purchase a further 11,764,706 shares and entitled to 1% of the equity of Mercer during the 2015 financial year
Paul Smart 31st July 2012	Non-executive, independent and chairman of the audit committee	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • Deputy Chairman and Chair Audit Committee of NZPM Group Limited • Director and Chair Audit Committee of Intercity Holdings Limited • Director of Solarcity Limited • Director Sunrise Consulting Limited • Trustee of Bellbird Trust • Trustee of Saddleback Trusts	

Garry Diack, is currently an Executive Director of Tait Ltd. Prior to taking up that role in July 2014 Garry has amassed a 25 year consulting and executive career in corporate performance recovery, post-merger integration, share price recovery and performance turn around initiatives across a number of large corporate and medium sized companies in New Zealand and Australia. He is an experienced Director and was previously Chairman of General Cable Superconductors and a Director of SBS bank.

Humphry Rolleston is a director of Mercer Group, Infratil Limited, Property for Industry, SKY Network Television, Murray & Co and Asset Management. He owns a number of private companies involved in tourism, security, manufacturing and finance. He is a Fellow of the New Zealand Institute of Directors and the Institute of Management.

Richard Rookes is an executive director of Murray & Co, the manager of the Rakaia Fund. Murray & Co is an independent merchant bank based in Christchurch. Richard manages the private capital activities of Murray & Co and sits on the board of all Rakaia Fund investee companies. Prior to joining Murray & Co in 2005 Richard was based in London where he worked as a banker at Salomon Smith Barney and Citigroup. Richard holds a Bachelor of Commerce (Accounting) from the University of Otago, a Diploma for Graduates (Marketing) and a Postgraduate Diploma in Commerce. Richard is a member of the NZ Institute of Directors and is also a member of the Advisory Committee of St Georges Hospital Society.

Paul Smart is a Chartered Accountant and long standing member of the Institute of Directors with extensive financial and director experience. Paul is Deputy Chairman of NZPM Group, a Director of Intercity Holdings and Solarcity and has other private directorships and shareholdings. Previously Paul spent 13 years as the founding Chief Financial Officer of Sky Network Television and 4 years as the Chief Financial Officer of Meridian Energy. He has significant experience in business and has been exposed to a large range of different issues in New Zealand and offshore markets having worked in public companies, state owned enterprises and a cooperative.

Executive team and employees

Name	Role	Age*	Date appointed
Rodger Shepherd	Chief Executive Officer	44	August 2011
Tobin Blathwayt	General Manager Stainless and Chief Financial Officer	46	August 2011
Alan Dowman	General Manager, Mercer Technologies	53	November 2012
Ross Coppard	Operations Manager, Stainless Division	44	February 1987
Sean Marr	Chief Executive, Titan Slicers Limited	49	July 2012
Richard Fletcher	Branch Manager, Stainless New Plymouth	50	July 2014
Ivan Ramsey	General Manager, Mercer Interiors	59	February 2014
Charles Brothers	General Manager, Medical Division	44	September 2011

** At 30 June 2014*

Rodger Shepherd, Chief Executive Officer, is responsible for the business operations and implementing the strategic direction of the business. Rodger is an experienced chief executive, most recently as Deputy CEO of Fairfax (NZ) Limited. Before that Rodger was CEO of PMP (NZ) Limited, New Zealand's largest web printing business. He started his career at Fletcher Challenge. Rodger has a Masters in Commerce (1st Class Honours) and Bachelor in Science from Auckland University.

Tobin Blathwayt, General Manager Stainless and Chief Financial Officer, is responsible for the operations of the Stainless Fabrication division and the custody of the business assets and driving the business forward from a financial perspective, securing and allocating resources appropriately. Tobin is an experienced finance professional predominantly focused historically on mergers and acquisition and corporate turnaround, having spent most of his career at PricewaterhouseCoopers and General Electric in the United Kingdom, United States and New Zealand. A Chartered Accountant, Tobin also has a Bachelor of Science (Honours) in Economics and Operational Research from Leeds University and a Masters of Business Administration from Bradford University.

Alan Dowman, General Manager Technologies, is responsible for the identification, development and profitable international commercialisation of innovative products, based on Mercer intellectual property. Alan has broad experience in innovation management, as well as being a trade certified engineer with a certificate in marketing management. Alan has held key leadership roles in business units developing and marketing technically complex products that have achieved over $30 million revenue in three to five year periods. During his time as GM Nutraceuticals, Alan was the recipient of a dairy company innovation award. Alan is an advocate of continuous improvement and has experience in the international quality standards: ISO 9001, ISO 4801 and ISO 14001.

Ross Coppard, Stainless Operations and Branch Manager, is responsible for the safe and efficient operation of the Christchurch Stainless workshop, as well as the critical fabrication sales relationship of Mercer Stainless. Ross has been in the business since 1987, when he began his apprenticeship as a draftsman. Ross understands the business from all aspects including the manufacturing processes, operations, sales and finance. Ross has completed a New Zealand certificate in Mechanical Engineering.

Sean Marr, Chief Executive Officer of Titan Slicer Limited, is responsible for the development of Titan Slicers into a global business. With a key focus on sales of equipment, Sean has a degree in electrical in engineering obtained from the New Zealand Electricity Department. Sean has worked for such companies as Marconi, Toyota and the Alliance Group. In 1990 he owned and operated an electrical contracting business growing it from three staff to 65 across three branches. Sean purchased Titan slicer in 2008 and was responsible for the development of the Titan 500IVS slicer. In 2012 Sean and his partners sold 75% of the business to Mercer to enable rapid growth of the business.

Richard Fletcher manages the New Plymouth Stainless Fabrication branch. He has a trade background with an apprenticeship in sheet metal. He has 30 years' experience in the sheet metal manufacturing industry including 20 years as Managing Director in his own business. He has also held several senior management roles in other manufacturing sectors including packaging and earthmoving attachments for local and export markets.

Ivan Ramsey, General Manager Interiors Division, is responsible for growing the consumer products area of the Mercer Group. Ivan has worked across many industries including manufacturing, importing, distribution, wholesales and technology industries in senior management roles. Ivan has lived and worked in Asia and has extensive experience working with Asian and European manufacturers and suppliers. Ivan has owned and operated several businesses in New Zealand, including HJ Cooper Limited, which was sold to Rinnai Japan in 2012.

Charles Brothers manages Mercers Medical division. Charles joined Mercer from General Motors New Zealand where he was the New Zealand Distribution and Planning manager for Holden and Isuzu. With a BCom, DipCom and LLB from Auckland University, his Postgraduate studies in Advanced Operations management has developed an extensive background within the Design, Manufacturing and Supply Chain industries, and has worked both in New Zealand and overseas in Malaysia and China working for PMP, Freightways, Chemiplas and BAX Global. Charles has had extensive start up experience both in New Zealand and internationally

Directors' Report
For the year ended 30 June 2014

Employees

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

	2014	2013
$100,000 – 109,999	4	4
$110,000 – 119,999	1	1
$120,000 – 129,999	2	1
$130,000 – 139,999	2	2
$140,000 – 149,999	2	1
$150,000 – 159,999	4	1
$160,000 – 169,999	1	1
$180,000 – 189,999	-	1
$220,000 – 229,999	1	1
$390,000 – 399,999	1	-
$550,000 – 559,999	-	1

Note that these figures include equity based payments amounting to $97,000 (2013: $254,000) for share based payments (see note 27) to the Accounts.

At 30 June 2014, Mercer employed 201 staff including 108 in the workshop: excluding workshop staff the company has 75% male and 25% female. We encourage representation across both genders and all ethnicities but have a policy hiring based on merit. The directors and officers of the company at 30 June 2014 and 30 June 2013 were all male.

Mercer made no donations during either year.

Corporate Governance

Board of Directors

The Board is the governing body of Mercer Group Limited and currently has five 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:

Garry Diack
Humphry Rolleston
Richard Rookes
Rodger Shepherd
Paul Smart

In accordance with the Company's constitution, Mr Rolleston 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 3.3.2 and 10.5.3(l) the directors determined that the following directors were independent directors as at 30 June 2014:

G Diack
P Smart

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

Committees of the Board

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

Corporate governance processes

Pursuant to NZX Listing Rule 10.5.5(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 two times per year.

Directors' Report
For the year ended 30 June 2014

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; and
- Board performance - formal procedures to assess individual and board performance have not been developed.

Remuneration of Directors

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

	2014 $	2013 $
G Diack	34,833	25,084
SB Heal	-	15,833
P Hewitson	-	6,333
HJD Rolleston	38,000	38,000
R Rookes	38,000	38,000
P Smart	42,098	35,423

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 on page 16. 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 Parent or Group and the identified entities.

Information used by Directors

No member of the Board 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 $13,000.

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 17th September 2014.

Twenty largest shareholders:

Holder	Number held	% of Shares on Issue
Murray Capital Rakaia Fund Limited Partnership	100,000,000	33.98
Asset Management Limited	44,737,879	15.20
New Zealand Central Securities Depository Limited	41,428,263	14.08
Humphry John D Rolleston & Graham William Riley	35,687,988	12.13
Rodger David Shepherd	16,285,333	5.53
Whitford Equity Investments Limited	14,285,714	4.85
Barry David Lobb	4,965,329	1.69
Parvenu Holdings Limited	3,880,317	1.32
Accelerated Transaction Consulting Limited	3,855,644	1.31
Paul Hewitson & Christopher John Stark	3,536,019	1.20
Russell John Field & Anthony James Palmer	3,104,030	1.05
Custodial Services Limited	1,822,254	0.62
Michael David Hocquard Clark & Heather Margaret Anderson & Roderick Neill Gillespie	1,000,000	0.34
Pendene Farm Limited	975,441	0.33
Graeme Bruce Lowe	828,934	0.28
Charles Layton Roberts	660,026	0.22
Asset Trading Limited	612,567	0.21
Custodial Services Limited	500,000	0.17
Te Iwi Carving Limited	489,669	0.17
Robert Allen Snowden	483,170	0.16
	279,138,577	94.84

Directors' Report
For the year ended 30 June 2014

Distribution of security holders:

Range of shareholdings	Number of holders	%	Number of shares held	%
1 to 1,000	89	17.15	47,107	0.02
1,001 to 5,000	147	28.32	438,651	0.15
5,001 to 10,000	71	13.68	575,275	0.20
10,001 to 500,000	113	21.77	3,005,468	1.02
100,001 and over	99	19.08	290,254,848	98.61
	519	100.0	294,321,349	100.0

Domicile of security holders	Number of holders	%	Number of shares held	%
New Zealand	505	97.30	293,494,783	99.72
Australia	12	2.31	825,184	0.28
Other	2	0.39	1,382	0.00
	519	100.00	294,321,349	100.0

Substantial security holders

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received, the following persons were substantial security holders in the Company as at 17 September 2014:

	Relevant Interest Voting Securities	% of Shares
Murray Capital Rakaia Fund Ltd Partnership	100,000,000*	33.98
HJD Rolleston	80,452,349*	27.33
R D Shepherd	30,571,047*	10.39

* The total number of voting securities of the Company on issue at 30th June 2014 was 294,321,349.

Auditors

The auditor for the Group is Deloitte. The remuneration for services provided by Deloitte for the current financial year (PricewaterhouseCoopers for the prior financial year) was:

	2014 $000	2013 $000
Auditing the financial statements (2014: Deloitte, 2013: PricewaterhouseCoopers)	70	110
Taxation services (PricewaterhouseCoopers)	10	10
	80	120

Directors' Report
For the year ended 30 June 2014

MERCER GROUP LIMITED DIRECTORY

Mercer Group Limited

Registered Office:	142 Neilson St, Auckland Chief Executive Officer: Rodger Shepherd Chief Financial Officer: Tobin Blathwayt Mercer Technologies General Manager: Alan Dowman
Bankers:	Bank of New Zealand Limited
Solicitors:	Minter Ellison Rudd Watts
Share Registry:	Link Market Services, PO Box 384, Ashburton
Auditors:	Deloitte
Mercer Stainless	53 Lunns Road, Christchurch Ph: (03) 348 7039 Operations and Branch Manager: Ross Coppard Corbett Road, Bell Block, New Plymouth Ph: (06) 755 1276 Branch Manager: Richard Fletcher 4 Forests Road, Stoke, Nelson Ph: (03) 546 4528 Titan Slicing Systems CEO: Sean Marr 16 Blivest Street, Oxley, Queensland, Australia Ph: 0061 (7) 3279 2020 Branch Manager: Denis Nolan
Mercer Interiors	142 Neilson St, Auckland Ph: (09)8377540 General Manager: Ivan Ramsey 45 Lunns Road, Christchurch Ph (03) 348 8002 Operations Manager: Shane Wiremu 16 Blivest Street, Oxley, Queensland, Australia Ph: 0061 (7) 3279 2020 National Sales Manager: Peter Dawes
Mercer Medical	142 Neilson St, Auckland, Auckland Ph: (09) 837 5002 General Manager: Charles Brothers

Mercer Group Limited
Financial Statements for the year ended 30 June 2014

The Directors have pleasure in presenting the Annual Financial Statements of Mercer Group Limited, for the year ended 30 June 2014. The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 29 August 2014.

G Diack, Chairman of Directors

R D Shepherd, Director

Statements of Comprehensive Income

For the year ended 30 June 2014

	Notes	Group 30 June 2014 $'000	Group 30 June 2013 $'000	Parent 30 June 2014 $'000	Parent 30 June 2013 $'000
Revenue					
Sale of goods and contract revenue	6	40,371	38,761	-	-
Other income	7	431	12	517	611
Total income		40,802	38,773	517	611
Expenses					
Changes in inventories of finished goods and work in progress		(18,607)	(17,708)	-	-
Salaries and wages	9	(14,064)	(12,149)	-	-
Rental and operating leases		(1,285)	(1,426)	-	-
Depreciation	14	(864)	(823)	-	-
Amortisation	15	(37)	(30)	-	-
Other expenses	8	(5,875)	(4,989)	(367)	(7,660)
Surplus(deficit) before finance cost		70	1,648	150	(7,049)
Finance costs, net		(505)	(453)	(394)	(318)
Share of profits(losses) of associate	17	11	(2)	-	-
(Deficit) Surplus before taxation		(424)	1,193	(244)	(7,367)
Income tax (charge) credit	10	(59)	(415)	68	24
(Deficit) Surplus after taxation		(483)	778	(176)	(7,343)
Other comprehensive income					
Attributable to:					
- Owners of the parent	21	(457)	763	(176)	(7,343)
- Non-controlling interest		(26)	15	-	-
Total		(483)	778	(176)	(7,343)
Items that may be subsequently charged or credited to profit and loss					
Currency translation differences	21	(101)	(147)	-	-
Items that will not be subsequently charged or credited to profit and loss					
Asset Revaluation Reserve movement	21	848	-	-	-
Deferred tax on Revaluation increment of buildings	21	(71)	-	-	-
Other comprehensive income for the year, net of tax		676	(147)	-	-
Total comprehensive income for the period		193	631	(176)	(7,343)
Attributable to:					
- Owners of the parent	21	219	616	(176)	(7,343)
- Non-controlling interest		(26)	15	-	-
Total		193	631	(176)	(7,343)
Basic earnings per share:					
Surplus (deficit) per share attributable to shareholders of the company (cents)	23	(0.17)	0.31		
Fully diluted earnings per share:					
Surplus (deficit) per share attributable to shareholders of the company (cents)	23	(0.17)	0.24		
Net tangible assets per share (cents)		4.79	4.86		

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

Statements of Financial Position

As at 30 June 2014

	Notes	Group 30 June 2014 $'000	Group 30 June 2013 $'000	Parent 30 June 2014 $'000	Parent 30 June 2013 $'000
ASSETS					
Current assets					
Cash and bank balances	11	46	307	2	-
Accounts receivable	12	7,066	5,925	-	-
Other debtors and prepayments	12	529	289	9	8
Inventories	13	6,122	5,362	-	-
Total current assets		13,763	11,883	11	8
Non current assets					
Other debtors and prepayments	12	773	368	-	-
Property, plant and equipment	14	9,791	9,129	-	-
Intangible assets	15	6,383	5,754	-	-
Deferred tax asset	16	3,822	3,952	1,841	1,773
Investment in subsidiaries and associates	17	-	-	2,929	3,030
Advances to subsidiaries	17	-	-	25,082	21,644
Total non current assets		20,769	19,203	29,852	26,447
Total assets		34,532	31,086	29,863	26,455
LIABILITIES					
Current liabilities					
Bank overdraft	11	-	644	-	30
Trade and other payables	18	6,124	5,955	294	275
Employee entitlements		1,112	917	-	-
Advances from subsidiaries	19	-	-	1,542	1,428
Borrowings	19	389	775	276	700
Total current liabilities		7,625	8,291	2,112	2,433
Non current liabilities					
Borrowings	19	6,431	5,562	6,201	5,358
Total liabilities		14,056	13,853	8,313	7,791
Net assets		20,476	17,233	21,550	18,664
EQUITY					
Share capital	20	32,146	29,084	32,146	29,084
Other reserves	21	2,696	2,032	-	-
Retained earnings	21	(14,345)	(13,888)	(10,596)	(10,420)
		20,497	17,228	21,550	18,664
Non-controlling interest		(21)	5	-	-
Total equity		20,476	17,233	21,550	18,664

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

Statement of Movements in Equity
For the year ended 30 June 2014

Group

	Notes	Attributable to the owners of the Group							
		Share capital $'000	Retained earnings $'000	Share based payments reserve $'000	Foreign currency translation reserve $'000	Asset revalution reserve $'000	Total equity $'000	Non-controlling intrest $'000	Total equility $'000
Balance at 30 June 2012		28,981	(14,504)	-	(161)	2,093	16,409	-	16,409
Foreign currency translation reserve movement	21	-	-	-	(147)	-	(147)	-	(147)
Asset revaluation reserve movement	21	-	56	-	-	(56)	-	-	-
Surplus for the year	21	-	763	-	-	-	763	15	778
Total comprehensive income for the year		-	819	-	(147)	(56)	616	15	631
Acquisition of subsidiary		-	-	-	-	-	-	(10)	(10)
Transfer between reserves	21	-	(203)	-	203	-	-	-	-
Value of employee services	21	-	-	203	-	-	203	-	203
Issue of new shares	20,21	103	-	(103)	-	-	-	-	-
Balance at 30 June 2013		29,084	(13,888)	100	(105)	2,037	17,228	5	17,233
Foreign currency translation reserve movement	21	-	-	-	(101)	-	(101)	-	(101)
Asset revaluation reserve movement	21	-	-	-	-	777	777	-	777
Deficit for the year	21	-	(457)	-	-	-	(457)	(26)	(483)
Total comprehensive income for the year		-	(457)	-	(101)	777	219	(26)	193
Value of employee services	21	-	-	97	-	-	97	-	97
Issue of new shares	20,21	3,062	-	(109)	-	-	2,953	-	2,953
Balance at 30 June 2014		32,146	(14,345)	88	(206)	2,814	20,497	(21)	20,476

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

Statement of Movements in Equity (Continued)
For the year ended 30 June 2014

Parent	Notes	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance at 30 June 2012		28,981	(3,077)	25,904
Deficit for the year	21	-	(7,343)	(7,343)
Total comprehensive income for the year		-	(7,343)	(7,343)
Issue of new shares	20	103	-	103
Balance at 30 June 2013		29,084	(10,420)	18,664
Deficit for the year	21	-	(176)	(176)
Total comprehensive income for the year		-	(176)	(176)
Issue of new shares	20	3,062	-	3,062
Balance at 30 June 2014		32,146	(10,596)	21,550

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

Statements of Cash Flows
For the year ended 30 June 2014

	Notes	Group 30 June 2014 $'000	Group 30 June 2013 $'000	Parent 30 June 2014 $'000	Parent 30 June 2013 $'000
Operating activities					
(Deficit) surplus after tax		(483)	778	(176)	(7,343)
Income tax recognised in profit or loss		59	415	(68)	(24)
Finance costs included in profit or loss		505	453	394	318
Depreciation and amortisation		901	853	-	-
Impairment of subsidiaries		-	-	-	7,278
Other non-cash items		(283)	190	108	-
Gain on sale of patents and development activities		(125)	-	-	-
Changes in working capital	24	(1,886)	(1,778)	18	233
Cash generated from operations		(1,312)	911	276	462
Interest paid		(505)	(453)	(394)	(318)
Income tax paid		-	-	-	-
Net cash generated by operating activities		(1,817)	458	(118)	144
Investing activities					
Cash was provided from (to):					
Advances to subsidiaries		-	-	(3,222)	(677)
Purchase of property, plant and equipment	14	(647)	(765)	-	
Purchase of patents and development activities	15	(791)	(995)	-	-
Proceeds from sales of patents and development activities		250	-	-	-
Acquisition of subsidiary / business	17	(50)	(750)	-	(750)
Net cash (outflow) from investing activities		(1,238)	(2,510)	(3,222)	(1,427)
Financing activities					
Cash was provided from (to):					
New borrowings		1,214	1,900	1,092	1,900
Issue of new shares		2,953	-	2,953	-
Repayment of borrowings		(732)	(857)	(673)	(692)
Net cash inflow from financing activities		3,435	1,043	3,372	1,208
Net increase (decrease) in cash held		380	(1,009)	32	(75)
Cash at beginning of the year		(337)	648	(30)	45
Effect of exchange rate changes		3	24	-	-
Cash and bank balances at the end of the year	11	46	(337)	2	(30)

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

The Statements of Cash Flows are exclusive of GST.

Notes to the Financial Statements
For the year ended 30 June 2014

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 and majority owned subsidiaries as disclosed in note 17. The core activities of 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 and Nelson, 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 29 August 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 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 comply with 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 certain financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss. The Group is compliant with its covenants which are currently tested half yearly and is forecasting to remain compliant. Accordingly, the Directors believe that it is appropriate to prepare the accounts 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 the Company and all entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee where facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote-holders;
- potential voting rights held by the Company, other vote-holders or other parties;
- rights arising from other contractual agreements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the company ceases to control the subsidiary.

Profit or loss on each component of other comprehensive income is attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated in full on consolidation.

The acquisition 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 profit or loss. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Costs of acquisitions are expensed as incurred.

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.

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount increased or decreased to recognise the investors' share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit / (loss) of associates in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(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 Board of Directors who review 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 profit or loss.

(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 in other comprehensive income and 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 foreign currency translation reserve in shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are reclassified to profit or loss, 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 profit or loss 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 the 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 in other comprehensive income or directly in equity is also recognised in other comprehensive income or 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss.

(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 and associates 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 estimate 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 profit or loss.

(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 profit or loss. 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.

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

(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 years, 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 and impairment, if any. 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 directly attributable 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 profit or loss 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%

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 profit or loss. When revalued assets are sold it is company policy to transfer the amounts included in other reserves in respect of those assets 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 profit or loss.

(ii) Research and development

Expenditure on research activities, net of any grants receivable, is recognised in the profit or loss as an expense when it is incurred.

Intellectual property directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets only when all the following criteria are met:

- it is technically feasible to complete the product so that it is available for use or sale;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated that the product will generate future economic benefits; and
- the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs capitalised as part of the product would include employee costs and an appropriate portion of relevant overheads.

Other intellectual property expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intellectual property recognised as an asset, less impairments if any, are amortised over its useful economic lives, not exceeding twenty 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 and borrowing costs

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 profit or loss 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 twelve months after the balance date.

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.

(t) Provisions

Provisions for restructuring, legal and warranty claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item in the same class of obligation may be small.

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as interest expense.

(u) Share capital

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 entitlements

(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 employee entitlements liability, and is 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.

Diluted earnings per share is calculated by dividing the profit attributable to the Group by the weighted average number of ordinary shares on issue during the year adjusted to assume conversion of dilutive potential of ordinary shares as a result of warrants on issue, and the issue of share options when the average market price of ordinary shares during the period exceeds the exercise price of the share option.

(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 in 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 expensed is determined by reference to the fair value of the equity instruments granted. Employee tax obligations payable by the Group in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

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, in the profit or loss, with a corresponding adjustment in 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 and the balance in the equity settled share based payments reserve is also transferred to share capital.

(aa) Changes in accounting policies

There have been no changes in accounting policies from those applied by the Group in the financial statements as at 30 June 2014.

(ab) New accounting standards and interpretations

The accounting policies set out in these financial statements are consistent for all periods presented in these financial statements except as identified below.

- NZ IFRS 13 Fair Value Measurement is effective prospectively for annual reporting periods beginning on or after 1 January 2013. NZ IFRS 13 defines fair value and explains how it is to be measured and disclosed. The group has valued land and buildings and provided fair value disclosures in the notes to these financial statements.
- 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. These standards are effective for annual reporting periods beginning on or after 1 January 2013. NZ IFRS 10 changes the definition of control and provides additional guidance to assist in the determination of control. NZ IFRS 11 changes the definition of joint control, the types of joint arrangements and the accounting treatment. NZ IFRS 12 requires enhanced disclosures about an entity's investments in annual financial statements. Application of these standards by the Group has not materially affected any of the amounts recognised in these financial statements or the disclosures.
- XRB A1 Accounting Standards Framework (For-profit Entities Update). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The group is a Tier 1 entity. There was no impact on the current or prior year financial statements.
- Amendments to NZ IFRS 7 Financial Instruments: Disclosures. The amendment requires disclosure of information to enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the group for the annual reporting period ended 30 June 2014. The adoption of these standards and interpretations is not expected to have a material recognition or measurement impact on the group's financial statements unless otherwise stated below. These will be applied when they become mandatory. The significant items are:

- NZ IFRIC 21 Levies is effective for reporting annual reporting periods beginning on or after 1 January 2014. NZ IFRIC 21 addresses the accounting for a liability to pay a levy that is not income tax. The interpretation requires the recognition of a liability to pay a levy when the obligating event occurs. The obligating event is the event identified by the legislation that triggers the obligation to pay the levy. The impact of this interpretation is likely to impact the timing of expense recognition for council rates. While the timing is unlikely to have a material impact in annual financial statements it may be significant for the interim financial statements, as council rates will no longer be spread throughout the financial year. The group intends to apply this interpretation from 1 July 2014.
- NZ IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair

value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess NZ IFRS 9's full impact. The group intends to apply the standard from 1 July 2018.

- NZ IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2017. NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The group is yet to assess NZ IFRS 15's full impact. The group will apply this standard when it becomes mandatory. The IASB has issued IFRS9 (2014) including impairments and a revised effective date of 1 January 2018. While this is not yet approved in New Zealand, the Group now expects to apply NZ IFRS 9 from 1 July 2018.

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 15. 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 13.

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 16. 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; investments in, and receivables from, subsidiaries and associates 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 15. Investment in subsidiaries and associates impairment testing including key assumptions are disclosed in note 17.

Fair Value Measurement and Valuation Processes
Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 14.

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 may use 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 which 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 exchange rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

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 2014				
Cash and cash equivalents	46	-	-	-
Trade and other receivables	8,368	-	-	-
Trade and other payables	-	-	-	(6,124)
Borrowings and overdraft	-	-	-	(6,820)
	8,414	-	-	(12,944)
Group 2013				
Cash and cash equivalents	307	-	-	-
Trade and other receivables	6,582	-	-	-
Trade and other payables	-	-	-	(5,955)
Borrowings and overdraft	-	-	-	(6,981)
	6,889	-	-	(12,936)
Parent 2014				
Cash and cash equivalents	2	-	-	-
Other receivables	9	-	-	-
Advances to (from) subsidiaries	25,082	-	-	(1,542)
Other payables	-	-	-	(294)
Borrowings and overdraft	-	-	-	(6,477)
	25,093	-	-	(8,313)
Parent 2013				
Cash and cash equivalents	-	-	-	-
Other receivables	8	-	-	-
Advances to (from) subsidiaries	21,644	-	-	(1,428)
Other payables	-	-	-	(275)
Borrowings and overdraft	-	-	-	(6,088)
	21,652	-	-	(7,791)

(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 may use 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 assets (liabilities)	+10% and $'000 Post tax Profit Increase (decrease)	Equity	-10% and $'000 Post tax Profit Increase (decrease)	Equity
30 June 2014	1,999	(144)	(144)	144	144
30 June 2013	1,700	(122)	(122)	122	122

Parent - $'000	Foreign Currency amount assets (liabilities)	+10% and $'000 Post tax profit	Equity	-10% and $'000 Post tax profit	Equity
30 June 2014	-	-	-	-	-
30 June 2013	-	-	-	-	-

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 2014 $000	30 June 2013 $000	**30 June 2014 $000**	30 June 2013 $000
Cash				
Australian dollar	367	170	-	-
United States dollar	16	-	-	-
Canadian dollar	102	232	-	-
Trade receivables				
Australian dollar	830	1,359	-	-
United States dollar	927	197	-	-
Canadian dollar	276	441	-	-
Euro	-	6	-	-
Other		-	-	-
Trade payables				
Australian dollar	(291)	(256)	-	-
United States dollar	(44)	(184)	-	-
Euro	(7)	-	-	-
Canadian dollar	(45)	(134)	-	-
Other	-	(131)	-	-
Loan				
Australian dollar	(132)	-	-	-
	1,999	1,700	-	-

(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. The Group has both New Zealand dollar and Australian dollar denominated borrowings.

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 (2013: 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 Group on which interest is not fixed is $6,595,000 (2013: $6,702,000) and $6,477,000 for the Company (2013: $6,088,000). The table assumes no additional borrowing, no repayments and a tax rate of 28% (2013: 28%).

Group	$'000 Carrying amount	+1pp and $'000 Post tax profit	Equity	-1pp and $'000 Post tax profit	Equity
Financial liabilities					
30 June 2014	6,595	(46)	(46)	46	46
30 June 2013	6,702	(48)	(48)	48	(48)

Parent	$'000 Carrying amount	+1pp and $'000 Post tax profit	Equity	-1pp and $'000 Post tax profit	Equity
Financial liabilities					
30 June 2014	6,477	(45)	(45)	45	45
30 June 2013	6,088	(44)	(44)	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 2014 the Group had exposure to one significant debtor which amounted to $655,000. Subsequent to year end this debtor settled 50% of its account with the balance falling due on 31 December 2014.

The Parent has credit exposure to intercompany advances. The maximum exposure to credit risk is represented by the carrying amount of these assets: refer to Note 17.

(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 $195,000 (2013: $204,000) are due between one and five years (including interest).
- Bank debt whereby $2,597,000 (2013: $6,206,000) are due between one and five years, with $5,285,000 (2013: nil) due after five years (including interest).

Contingent liabilities disclosed in note 25 amount to $3,043,000 (2013: $2,435,000) for the Group and $2,843,000 (2013: $2,235,000) for the Parent. If these amounts become payable, the liabilities will fall due in less than 12 months.

The table below analyses the Group's non-derivative financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual non-discounted cash flows.

Group	Less than one year $000	Between one and two years $000	Between two and five years $000	Over five years $000
30 June 2014				
Bank loans	746	687	1,910	5,285
Hire purchase loans	75	75	120	-
Trade and other payables	6,124	-	-	-
Total	6,945	762	2,030	5,285
Group				
30 June 2013				
Bank loans	1,041	999	5,207	-
Hire purchase loans	75	60	144	-
Bank overdraft	644	-	-	-
Trade and other payables	5,955	-	-	-
Total	7,715	1,059	5,351	-
Parent				
30 June 2014				
Bank loans	656	639	1,818	5,223
Intercompany advance	1,542	-	-	-
Trade and other payables	294	-	-	-
Total	2,492	639	1,818	5,223
Parent				
30 June 2013				
Bank loans	1,041	999	5,207	-
Bank overdraft	30	-	-	-
Intercompany advance	1,428	-	-	-
Trade and other payables	275	-	-	-
Total	2,774	999	5,207	-

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

(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 2014	30 June 2013	30 June 2014	30 June 2013
Equity $'000	20,476	17,233	21,550	18,664
Total assets $'000	34,532	31,086	29,863	26,455
Equity ratio	59.3%	55.4%	72.2%	70.5%

The Group is subject to a ratio of shareholder funds to tangible assets covenant at 30 June 2014 in relation to the bank loans detailed in note 19. From 31 December 2014 the Group will also be subject to the following covenants: ratio of earnings to consolidated funding costs and ratio of earnings to consolidated debt servicing costs. The Group complied with its covenants during the year. These are tested half yearly and the Group is forecasting to remain compliant.

(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.

Advances to and from subsidiaries, and advances to related parties and borrowings are determined to be equivalent to their carrying values.

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 in Nelson operated by Titan Slicer 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: 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.

The table below shows the sales revenue, earnings before interest, tax, depreciation and amortisation (EBITDA) and assets by segment.

	30 June 2014			30 June 2013		
	Total sales of goods and contract revenue $000	Segment result (EBITDA) $000	Segment assets $000	Total sales of goods and contract revenue $000	Segment result (EBITDA) $000	Segment assets $000
Stainless Fabrication	27,730	1,342	9,401	28,080	3,227	7,808
Mercer Interiors	8,368	(521)	5,790	8,150	279	6,711
Mercer Medical	3,581	468	2,794	2,679	168	1,335
Corporate	1,028	(318)	16,547	-	(1,173)	15,232
Intersegment eliminations	(336)	-	-	(148)	-	-
Total sales, EBITDA, assets	**40,371**	**971**	**34,532**	**38,761**	**2,501**	**31,086**
Depreciation and amortisation	-	(901)	-	-	(853)	-
Finance costs	-	(505)	-	-	(453)	-
Income tax charge	-	(59)	-	-	(415)	-
Share of profits (losses) of associate	-	11	-	-	(2)	-
Total Group sales, profit or loss after tax, assets	**40,371**	**(483)**	**34, 532**	**38,761**	**778**	**31,086**

One Stainless Fabrication customer contributed $1,636,504 (2013: $5,173,000) of revenue in the year ended 30 June 2014. Another contributed $702,556 (2013: $5,840,000) of revenue in the year ended 30 June 2014. No other customer's revenues have exceeded 10% of total revenues in either year.

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

Transactions between segments are accounted for using the same accounting policies as set out in these financial statements.

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

	30 June 2014 $000	30 June 2013 $000
Stainless Fabrication	279	258
Mercer Interiors	293	304
Mercer Medical	24	20
Corporate	305	271
Total	**901**	**853**

Non-current assets, excluding the deferred tax asset, analysed by segment was:

	30 June 2014 $000	30 June 2013 $000
Stainless Fabrication	1,610	1,386
Mercer Interiors	2,417	2,539
Mercer Medical	396	61
Corporate	12,525	11,265
Total	**16,948**	**15,251**

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

	30 June 2014 $000	30 June 2013 $000
New Zealand	16,843	15,098
Australia	105	153
Total	**16,948**	**15,251**

6. Sale of goods and contract revenue

	30 June 2014 $000	30 June 2013 $000
Group		
Sale of goods	10,117	10,468
Construction contract revenue	30,254	28,293
Total	**40,371**	**38,761**

7. Other income

	30 June 2014 $000	30 June 2013 $000
Group		
Grant	130	-
Discount on acquisition (note 17)	282	-
Other	19	12
Total	**431**	**12**
Parent		
Interest income	517	611
Total	**517**	**611**

8. Other Expenses

Basic and diluted

The surplus (deficit) for the year is stated after taking into account the following specific expenses

	30 June 2014 $000	30 June 2013 $000
Group		
Foreign exchange losses / (gains)	227	(115)
Advertising	399	327
Movement in doubtful debts provision (note 12)	320	121
Communication costs	243	204
Electricity costs	234	211
Employee on-costs		
Superannuation	340	215
Accident credit compensation premiums	258	229
Insurance	320	381
Vehicle expenses	213	265
Directors fees	155	177
Repairs and maintenance	658	703
Recruitment	230	93
Research and development	16	19
Subcontractors	160	264
Travel and accommodation	547	546
Fees paid to Auditors		
Audit of financial statements (2014: Deloitte; 2013: PricewaterhouseCoopers)	70	96
Taxation services (PricewaterhouseCoopers)	10	10
Other expenses	1,475	1,243
	5,875	4,989
Parent		
Impairment of subsidiaries (note 17)	-	7,278
Directors fees	155	177
Fees paid to Auditors		
Audit of financial statements (2014: Deloitte; 2013: PricewaterhouseCoopers)	70	23
Taxation services (PricewaterhouseCoopers)	10	10
Other expenses	132	172
	367	7,660

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

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

9. Salaries and wages

Salaries and wages exclude the following amounts that have been recovered into labour for internally generated development assets $336,000 (2013: $211,000).

10. Income tax

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
(a) Income tax charge (Credit)				
Current tax	-	-	-	-
Deferred tax (note 16)	59	415	(68)	(24)
Total	59	415	(68)	(24)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
(Deficit) surplus before tax expense	(424)	1,193	(244)	(7,367)
Tax at the New Zealand rate of 28%	(119)	334	(68)	(2,062)
Underestimation of prior year	-	(5)	-	-
Expenditure not deductible for tax	8	8	-	-
Recognise deferred tax on buildings	-	16	-	-
Current year tax losses in Australia not recognised	170	62	-	-
Impairments of investments in subsidiaries	-	-	-	2,038
Income tax charge (credit)	59	415	(68)	(24)

(c) Unrecognised deferred tax balances

At 30 June 2014 there were $10,214,000 (2013: $9,621,000) of unrecognised tax losses, representing a tax benefit of $3,065,000 (2013: $2,887,000). 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 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Credits available to shareholders of the company	-	-	-	-

11. Cash and bank balances

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Cash at bank and in hand	46	307	2	-
Total cash and bank balances	46	307	2	-
Less bank overdrafts	-	(644)	-	(30)
Cash and cash equivalents per cash flow statement	46	(337)	2	(30)

Bank overdrafts

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

12. Accounts receivable, other debtors and prepayments

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Current				
Trade receivables	1,798	2,328	-	-
Less provision for doubtful receivables	(132)	(70)	-	-
Construction contract receivables	5,477	3,735	-	-
Less provision for doubtful receivables	(77)	(68)	-	-
Total accounts receivable	7,066	5,925	-	-
Impairment provision				
Provision for doubtful debts at 1 July	(138)	(86)	-	-
Increase in provision	(320)	(121)	-	-
Bad debts written off	249	69	-	-
Provision for doubtful debts at 30 June	(209)	(138)	-	-
Due and impaired receivables				
1 to 3 months	-	-	-	-
Over 3 months	209	137	-	-
	209	137	-	-
Due but not impaired receivables				
1 to 3 months	1,401	1,500	-	-
Over 3 months	470	341	-	-
	1,871	1,841	-	-

Trade receivables include retentions of nil (2013: $604,000). Management considers that receivables past due, but not impaired, are fully collectible in the ordinary course of business.

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Current				
Other debtors and prepayments				
Total other debtors	183	147	9	8
Receivable from Associate (note 27)	120	60	-	-
Prepayments	226	82	-	-
Total	529	289	9	8
Long term				
Other debtors and prepayments				
Receivable from Associate (note 27)	432	368	-	-
Prepayments	341		-	-
Total	773	368	-	-

Included in long term other debtors and prepayments are $248,000 of prepayments which fall due 5 years after balance date.

13. Inventories

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Construction contracts				
Total aggregate costs incurred and recognised profits (less recognised losses) to date	7,956	4,309	-	-
Less: progressive billings	(7,172)	(4,458)	-	-
Net balance sheet for ongoing contracts	784	(149)	-	-
Raw materials and components	1,210	851	-	-
Finished goods	4,128	4,660	-	-
Total inventories	6,122	5,362	-	-

The cost of inventories recognised as impaired and included in changes in inventories of finished goods and work in progress amounted to nil (2013: $5,000 credit).

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 19.

14. Property, plant and equipment

Group	Freehold land $000	Buildings $000	Plant, and equipment $000	Total $000
At 1 July 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
Year ended 30 June 2013				
Opening net book amount	1,557	3,394	3,976	8,927
Additions	-	-	785	785
Acquisition of new business (note 17)	-	-	98	98
Transfers from inventory	-	-	160	160
Effect of exchange rate movements	-	-	(10)	(10)
Depreciation	-	(115)	(708)	(823)
Disposals	-	-	(8)	(8)
Closing net book amount	1,557	3,279	4,293	9,129
At 30 June 2013				
Cost/Valuation	1,557	3,743	15,191	20,491
Accumulated depreciation	-	(464)	(10,898)	(11,362)
Net book value	1,557	3,279	4,293	9,129
Year ended 30 June 2014				
Opening net book amount	1,557	3,279	4,293	9,129
Additions	-	33	614	647
Acquisition of new business (note 17)	-	-	33	33
Revaluation	592	256	-	848
Effect of exchange rate movements	-	-	(2)	(2)
Depreciation	-	(111)	(753)	(864)
Disposals	-	-	-	-
Closing net book amount	2,149	3,457	4,185	9,791
At 30 June 2014				
Cost/Valuation	2,149	3,543	15,825	21,517
Accumulated depreciation	-	(86)	(11,640)	(11,726)
Net book value	2,149	3,457	4,185	9,791

Land and buildings at 53 Lunns Road, Christchurch was revalued to $3,674,000 on 17 September 2013. Land and buildings at Corbett Rd, Bell Block was revalued to $2,000,000 on 24 September 2013. 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 property will be revalued on a cyclical basis by external independent valuers. The valuation methodologies used in the land and buildings revaluation as at September 2013 are consistent with the valuation methodologies used in the last valuation in May 2009.

Fair value hierarchy

The land and buildings are categorised as Level 3 in the fair value hierarchy. During the year there were no transfers between the levels of fair value hierarchy.

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

The table below summarises the valuation approach and the principle assumptions used in establishing the fair values:

Asset classification description and valuation approach	Valuer	Fair value at 30 June 2014 $000	Inputs used to measure fair value	Range of significant unobservable inputs	Weighted average
Land					
Income capitalisation approach and discounted cashflow approach	Telfer Young	2,149	Rental Growth	2.00%	2.00%
			Discount rate	10.75%	10.75%
			Terminal Yield	9.50%-10.00%	9.84%
			Net market income per m2	$33-$81	$67
			Capitalisation rate	9.00%-9.75%	9.13%
Buildings					
Income capitalisation approach and discounted cashflow approach	Telfer Young	3,457	Rental Growth	2.00%	2.00%
			Discount rate	10.75%	10.75%
			Terminal Yield	9.50%-10.00%	9.84%
			Net market income per m2	$33-$81	$67
			Capitalisation rate	9.00%-9.75%	9.13%

Impact on the fair value due to a change in a significant unobservable input

		Fair value measurement sensitivity to significant:	
Unobservable inputs within the discounted cashflow analysis		**Increase in input**	**Decrease in input**
Discount rate	The rate, determined through analysis of comparable market-related sales transactions, which is applied to a property's future net cash flows to convert those cash flows into a present value.	Decrease	Increase
Terminal Yield	The rate which is applied to a property's sustainable net income at the end of an assumed holding period to derive an estimated future market value	Decrease	Increase
Rental Growth	The annual growth rate applied to the market rent over an assumed holding period	Increase	Decrease
Unobservable inputs within the income capitalisation approach			
Capitalisation rate	The rate of return, determined through analysis of comparable market related sales transactions, which is applied to the market rent to assess a property's value.	Decrease	Increase
Net market income per m2	The valuer's assessment of the net market income attributable to the property.	Increase	Decrease

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

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

	30 June 2014 $000	30 June 2013 $000
Cost	2,953	2,920
Accumulated depreciation	(807)	(751)
Net book value	2,146	2,169

The parent has no plant, property and equipment.

15. Intangible assets

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Goodwill				
Cost	6,337	6,337	-	-
Impairment charges	(2,614)	(2,614)	-	-
Net book amount	3,723	3,723	-	-
Opening balance	3,723	2,699	-	-
Acquisition of subsidiary (note 17)	-	1,024	-	-
Closing balance	3,723	3,723	-	-
Acquired patents, trademarks and licences				
Cost	639	623	-	-
Accumulated amortisation and impairment charges	(396)	(377)	-	-
Net book amount	243	246	-	-
Opening balance	246	232	-	-
Additions	16	33	-	-
Amortisation	(19)	(19)	-	-
Closing balance	243	246	-	-
Intellectual property				
Cost	3,950	3,300	-	-
Accumulated amortisation and impairment charges	(1,533)	(1,515)	-	-
Net book amount	2,417	1,785	-	-
Opening balance	1,785	704	-	-
Additions	775	1,092	-	-
Disposals	(125)	-	-	-
Amortisation	(18)	(11)	-	-
Closing balance	2,417	1,785	-	-
Total intangible assets	6,383	5,754	-	-

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

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 2014 $000	30 June 2013 $000
Mercer Interiors	2,699	2,699
Stainless Fabrication	1,024	1,024
Total	3,723	3,723

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. The goodwill allocated to Mercer Interiors relates to the acquisition and subsequent integration of Duratech Wholesale Limited in 2008. The goodwill allocated to Mercer Stainless relates to the acquisition and subsequent integration of Titan Slicer Limited in July 2012.

Goodwill has been tested for impairment in June 2014. Each cash generating unit which carries goodwill has prepared a discounted cash flow on a value-in-use basis using past experience of sales, growth, operating costs and margin, and external sources of information where appropriate to determine their expectations of the future. Cash flows beyond five years have been extrapolated using estimated terminal growth rates which do not exceed the long term growth rate for the industries in which the business units operate. The terminal growth rates used are 3% (2013: 3%). The cashflows are discounted at a nominal rate of 13% (2013: 13%). The valuation models used are most sensitive to changes in the terminal year earnings and cash flows.

The average growth in revenues used in the impairment calculation for Mercer Interiors is 8.5% (2013: 8%). The goodwill would start to be impaired if the growth was less than 7%; or the discount rate greater than 15%.

The average growth in revenues used in the impairment calculation for Stainless Fabrication is 20% (2013: 8%). The goodwill would start to be impaired if the growth was less than 15%; or the discount rate greater than 20%.

16. Deferred tax asset

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Group				
Balance at 1 July 2012	(982)	1,357	3,992	4,367
Amounts credited to the foreign currency reserve	16	(16)	-	-
Amounts credited to profit or loss	48	(320)	(143)	(415)
Balance at 30 June 2013	(918)	1,021	3,849	3,952
Balance at 1 July 2013	(918)	1,021	3,849	3,952
Amounts credited to the asset revaluation reserve	(71)	-	-	(71)
Amounts credited to profit or loss	-	(35)	(24)	(59)
Balance at 30 June 2014	(989)	986	3,825	3,822

Other Temporary Differences arise from provisions for working capital. $192,000 (2013: $350,000) of the deferred tax asset is expected to be realised over the next 12 months. The Group has forecast future earnings and concluded that the tax losses are likely to be utilised in the medium term.

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Parent				
Balance at 1 July 2012	-	-	1,749	1,749
Amounts credited to profit or loss	-	-	24	24
Balance at 30 June 2013	-	-	1,773	1,773
Balance at 1 July 2013	-	-	1,773	1,773
Amounts credited to profit or loss	-	-	68	68
Balance at 30 June 2014	-	-	1,841	1,841

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

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

17. Investment in subsidiaries and associates

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

Name of entity	Activities	Location	% ownership 2014	% ownership 2013
Subsidiaries				
Mercer Stainless Limited	Stainless steel fabricator and equipment manufacture; manufacturer / distributor of kitchen, bathroom and laundry products; and distributor of medical products	New Zealand	100%	100%
Mercer Technologies Limited	Holds Intellectual Property	New Zealand	100%	100%
Mercer Middle East Limited	Non-trading subsidiary, formerly a distributor of medical equipment and products	New Zealand	100%	100%
Mercer Products Pty Limited	Distributor of kitchen products	Australia	100%	100%
Mercer Technologies Pty Limited	Supply of stainless steel products	Australia	100%	100%
Mercer Stainless Pty Limited	Non-trading subsidiary, formerly a stainless steel fabricator and equipment manufacture	Australia	100%	100%
Old HEP Limited	Non-trading subsidiary, formerly, a distributor of photographic equipment	New Zealand	100%	100%
Sulray Limited	Non-trading holding company of Mercer Stainless Limited	New Zealand	100%	100%
Duratech Wholesale Limited	Non-trading holding company	New Zealand	100%	
Kuaka Holdings Limited	Non-trading holding company of Mercer Stainless Pty Limited	New Zealand	100%	100%
Mercer North America Limited	Stainless steel equipment sales and service	United States	100%	100%
Titan Slicer Limited	Stainless steel equipment sales and service	New Zealand	75%	75%
Associate				
Titan Design Limited	Intellectual Property company	New Zealand	25%	25%

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

	30 June 2014 $000	30 June 2013 $000
Shares at cost	18,849	18,950
Less impairment	(15,920)	(15,920)
	2,929	3,030
Advances owed from subsidiaries	38,149	34,711
Less impairment	(13,067)	(13,067)
	25,082	21,644
Total investments	28,011	24,674

Investments in, and advances to, subsidiaries are recorded at cost less impairment charges. During the 2013 year the investments in, and advances to, Old HE Perry Limited, Mercer Technologies Limited, Duratech Wholesales Limited and Kuaka Holdings Limited, the holding company of Mercer Stainless Pty Limited which ceased trading in 2012 were impaired by $7,278,000, reflecting a write down to the greater of the fair value of the subsidiary company or the recoverable amount based on value in use. These non-trading subsidiaries were written down to fair value.

Acquisition of subsidiaries

On 3 July 2012, the Group acquired 75% of the share capital of Titan Slicer Limited, a manufacturer and supplier of stainless steel products to New Zealand and overseas customers. Titan Slicer Limited was established to acquire certain assets and liabilities of an entity that had manufactured stainless steel products. As a result of the acquisition, the Group is expected to increase its presence in these markets. It also expects to reduce costs through economies of scale. The goodwill of $1,024,000 arising from the acquisition is attributable to management capabilities and the economies of scale from combining the operations of the Group and Titan Slicer Limited. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration payable for Titan Slicer Limited, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date.

	Year ended 30 June 2013 $000
Consideration	
Cash	750
Deferred consideration	245
Total consideration	995
Recognised amount of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	98
Inventories and work in progress	219
Trade and other payables	(29)
Borrowings	(327)
Total identifiable net liabilities	(39)
Non-controlling interest	10
Controlling interest goodwill	1,024
Total	995

Revenue of Titan Slicer Limited in the year ended 30 June 2013 amounted to $7,841,000 and made a profit of $60,000, $15,000 of which is due to the non-controlling interest. The non-controlling interests have been recognised as a proportion of the net assets acquired.

The profit is stated after fees charged by Mercer Stainless Limited for management and administration of the business. Mercer Stainless Limited also manufactures on behalf of Titan Slicer Limited. Mercer Technology Pty Limited charges commission on sales it sources in Australia for Titan Slicer Limited.

Investment in associate

A new entity Titan Design Limited was established on 3 July 2012. The Group has a 25% investment in Titan Design Limited and has been accounted for an Associate: the share of profits (loss) from the associate was $11,000 (2013: ($2,000)) recognised in the profit or loss.

The total assets and liabilities for Titan Design Limited are set out below:

	30 June 2014 $000	30 June 2013 $000
Assets	529	427
Liabilities	(497)	(439)
Net assets	32	(12)

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

Other acquisitions

In June 2014, the Group acquired 100% of the business and assets of Medchem Limited, a private entity, from its liquidator in exchange for cash of $50,000. Medchem Limited is an agent of instruments and related consumables for a series of principals in the Medical sector. The owners did not have sufficient time to market the business to multiple potential buyers. The management of the Group initially measures the separately recognisable identifiable assets acquired in accordance with the requirements of NZ IFRS 3. The amount of Medchem's identifiable net assets ($332,000) exceeds the fair value of the consideration transferred. Mercer measures the gain on its purchase as follows:

	Year ended 30 June 2014 $000
Consideration	
Cash	50
Total consideration	50
Recognised amounts of identifiable asset acquired	
Fixed assets	33
Inventories	299
Total identifiable net assets	332
Other income	(282)
Total	50

18. Trade and other payables

	Group		Parent	
	30 June 2014 $'000	30 June 2013 $'000	30 June 2014 $'000	30 June 2013 $'000
Trade creditors	4,761	4,692	28	-
Deferred consideration payable	-	221	-	221
Sundry creditors and accruals	1,363	1,042	266	54
Total creditors and accruals	6,124	5,955	294	275

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

19. Borrowings

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Bank loans	6,595	6,058	6,477	6,058
Hire purchase loans	225	279	-	-
Advance from subsidiaries	-	-	1,542	1,428
Total borrowings	6,820	6,337	8,019	7,486
Contractual maturity				
Within one year	389	775	1,818	2,128
Later than one year	6,431	5,562	6,201	5,358
	6,820	6,337	8,019	7,486

Bank loans

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

The Group has secured banking facilities with BNZ to June 2017. These comprise:

- A committed cash advance facility of $4,000,000;
- A loan facility of $4,000,000 with repayments of $23,000 per month falling due from June 2014; and
- A loan facility of $132,000 with repayments of $1,100 per week from June 2014.

The total amount is $8,132,000 at 30 June 2014, interest on the committed cash advance facility is 6.45% (2013: 5.3%) and the interest rate on the loan is 6.8% (2013: 6.2%). In addition the Group has an overdraft facility of $1,500,000 at 30 June 2014 (2013: $1,000,000). There was $1,500,000 of the committed cash advance facility undrawn at 30 June 2014 (2013: $1,600,000). There is a line fee of 1% on the committed cash advance facility.

Bank loans are subject covenants as set out in Note 4 (d).

Hire purchase loans

Non bank hire purchase loans have fixed interest charged at 7.83% (2013: 7.83%).

The total minimum lease payments were as follows:

	Group		Parent	
	30 June 2014 $'000	30 June 2013 $'000	30 June 2014 $'000	30 June 2013 $'000
Less than one year	75	75	-	-
Between two and five years	195	253	-	-
Total minimum lease payments	270	328	-	-
Less: future interest	(45)	(49)	-	-
Present value of future liability	225	279	-	-

20. Share Capital

	Shares		$000	
Parent and Group	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Issued and fully paid up capital	294,321,349	239,965,716	32,146	29,084
Balance at beginning of the year	239,695,716	237,322,491	29,084	28,981
Shares issued during the year	54,625,633	2,373,225	3,062	103
Balance at end of year	294,321,349	239,695,716	32,146	29,084

All ordinary shares are authorised and rank equally with one vote attached to each fully paid ordinary share. Shares have no par value.

In February 2014, Mr R Shepherd, Chief Executive Officer, exercised 14,285,714 share options which raised $1,000,000 and Mr T Blathwayt, Chief Financial Officer, exercised 3,571,429 share options which raised $250,000. There are a total of 14,705,882 share options at an exercise price of $0.085 per share which can be exercised in December 2014.

Mr R Shepherd is also entitled to 1% of the shares after the AGM on the first, second and third anniversary of his appointment and in 2014 Mr R Shepherd was issued 2,396,957 shares in accordance with Note 27.

As at 30 June 2013 Murray Capital Rakaia Fund Ltd Partnership had 34,371,533 warrants at an exercise price of $0.05 per share: these were exercised in November 2013.

There are no warrants outstanding at 30 June 2014.

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

21. Retained earnings and other reserves

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Foreign currency translation reserve				
Balance at beginning of the year	(105)	(161)	-	-
Transfer from retained earnings	-	203	-	-
Net exchange difference on translation of overseas subsidiaries	(101)	(147)	-	-
Balance at the end of the year	(206)	(105)	-	-
Share based payments reserve				
Balance at beginning of the year	100	-	-	-
Value of employee services	97	203	-	-
Transfers to share capital	(109)	(103)	-	-
Balance at the end of the year	88	100	-	-
Asset revaluation reserve				
Balance at beginning of the year	2,037	2,093	-	-
Revaluation	848	-	-	-
Deferred tax on revaluation of buildings	(71)	-	-	-
Transfer to retained earnings	-	(56)	-	-
Balance at the end of the year	2,814	2,037	-	-
Total other reserves	2,696	2,032	-	-
Retained earnings				
Balance at beginning of the year	(13,888)	(14,504)	(10,420)	(3,077)
(Deficit)/surplus for the year	(457)	763	(176)	(7,343)
Transfer from asset revaluation reserve	-	56	-	-
Transfer to foreign currency translation reserve	-	(203)	-	-
Balance at the end of the year	(14,345)	(13,888)	(10,596)	(10,420)

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. The share based payments reserve is used to record the value of employee services payable through equity and the resulting transfer to equity on issue of the shares.

22. Dividends

	Group and Parent		Group and Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 Cents	30 June 2013 Cents
	Total dividend		Dividend per share	
No dividend was paid or declared (2013: Nil)	-	-	-	-

23. Earnings per share

Basic and diluted

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

Diluted earnings per share are calculated by dividing the profit/(loss) attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year adjusted to assume conversion of the dilutive potential of ordinary shares as a result of warrants on issue, and the issue of share options where the weighted average market price of ordinary shares during the period exceeds the exercise price of the option / warrant.

	Group and Parent	
	30 June 2014 # of shares	30 June 2013 # of shares
Weighted average number of ordinary shares in issue:		
Basic	271,036,388	238,843,956
Warrants	11,676,905	34,371,533
Options	25,322,320	32,563,025
Equity based remuneration	3,934,831	5,669,644
Total	311,970,444	311,448,158
(Deficit) surplus attributable to the shareholders of the Company ($000)	(457)	763
Basic earnings per share	(0.17) cents	0.31 cents
Diluted earnings per share	(0.17) cents	0.24 cents

Given the deficit in 2014 the total weighted average of ordinary shares is anti-dilutive. Accordingly the number of shares used in the diluted earnings per share calculation in 2014 is 271,036,388.

24. Change in working capital

Changes in working capital recognised in the net cash (outflow) inflow from operating activities:

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Trade creditors and accruals	361	606	19	177
Trade debtors and prepayments	(1,786)	(282)	(1)	56
Inventories	(461)	(2,111)	-	-
Other	-	9	-	-
Total	(1,886)	(1,778)	18	233

Notes to the Financial Statements (Continued)
For the year ended 30 June 2014

25. Contingent liabilities

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Guarantee to bankers of bank overdraft facilities for subsidiaries to a limit of	1,500	1,000	1,500	1,000
Guarantee to bankers for credit card facilities up to a limit of	200	200	-	-
Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise	1,343	1,235	1,343	1,235
	3,043	2,435	2,843	2,235

26. Commitments

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Capital commitments				
Estimated commitments contracted for at balance date but not provided for	-	39	-	-
Operating lease commitments				
Non-cancellable				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows				
Within one year	1,137	1,023	-	-
Later than one year but not later than five years	1,570	1,613	-	-
Later than five years	352	625	-	-
	3,059	3,261	-	-

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.

27. 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, HJD Rolleston, R Rookes, R Shepherd and P Smart.

(b) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2014 and the year ended 30 June 2013 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 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Short term benefits	1,621	1,462	-	-
Long term benefits	12	13	-	-
Equity based payments	97	254	-	-
Directors' fees	155	177	155	177
Total	1,885	1,906	155	177

(c) Equity instruments

(i) Share options

At 30 June 2014 Mr R Shepherd, Chief Executive Officer, has options to purchase 11,764,706 shares at $0.085 per share on 2 December 2014. Mr R Shepherd exercised options to purchase 14,285,714 shares at $0.070 per share on 2 February 2014.

At 30 June 2014 Mr T Blathwayt, Chief Financial Officer, has options to purchase 2,941,176 shares at $0.085 per share on 2 December 2014. Mr T Blathwayt exercised options to purchase 3,571,429 shares at $0.070 per share on 2 February 2014.

(ii) Other shares

Equity based remuneration: Mr R Shepherd will be issued shares equivalent to 1% of the shares on issue in Mercer Group Limited after the Annual General Meeting on the first, second and third anniversary from the date of the employment agreement on condition that Mr R Shepherd is employed by the Group at that point. The Group is required to pay the tax on the shares.

The weighted average fair value of shares and options was determined based on an equity valuation of the business 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 on the total number of fully diluted shares at that time. For the share options volatility, was determined based on industry norms, of 30%. The total amount recognised in the profit or loss was $106,000 (2013: $203,000).

Share options are granted to selected employees. The option price increases the further forward dated the vesting date is. Options are exercisable only on the vesting date. 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 2014		30 June 2013	
	Average exercise price in cents per share option	Options ('000)	Average exercise price in cents per share option	Options ('000)
At 1 July	7.67	32,563	7.67	32,563
Exercised	7.00	(17,857)	-	-
At 30 June	8.50	14,706	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) 2014	Shares (000) 2013
November 11 / January 12	2 December 2014	7.00	-	17,857
November 11 / January 12	2 December 2014	8.50	14,706	14,706
			14,706	32,563

(d) Transactions with other related parties

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Income				
Interest charged to subsidiaries	-	-	517	611
Expenses				
Accounting fees incurred	-	-	47	47
Cash flows				
Advances to subsidiaries	-	-	(3,222)	(677)
Operating receipts from subsidiaries	-	-	517	611

(e) Balances owed (to) from subsidiaries, associates and related parties

	Group		Parent	
	30 June 2014 $000	30 June 2013 $000	30 June 2014 $000	30 June 2013 $000
Subsidiaries				
Advances owed from subsidiaries, net of impairment	-	-	25,082	21,644
Advances owed to subsidiaries	-	-	(1,542)	(1,428)
Other amounts owed by subsidiaries	-	-	-	-
Associates				
Advances owed from associates	552	428	-	-
Amounts owed to associates	(103)	-	-	-
Non-controlling interests				
Amounts owed to non-controlling interest	(26)	(35)	-	-

As disclosed in note 17, advances to subsidiaries were impaired by Nil (2013: $7,278,000). No other amounts have been written off or forgiven during the year. (2013: Nil).

During the year the Group recharged the associate $124,000 (2013: $428,000) for payments made to purchase intangible assets.

(f) 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 on receivables in the twelve month period to 30 June 2014 was 7.5% (2013: 7.5%).

Advances to associates

Intellectual property is held by associates and recovered by way of a royalty on sales of the equipment concerned.

28. Subsequent events

There are no subsequent events.

Mercer Group Limited

Independent Auditors' Report

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
MERCER GROUP LIMITED

Report on the Financial Statements

We have audited the financial statements of Mercer Group Limited and group on pages 25 to 67, which comprise the consolidated and separate statements of financial position of Mercer Group Limited, as at 30 June 2014, the consolidated and separate statements of comprehensive income, statements of movement in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's 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's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of 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 control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

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 and International Standards on Auditing (New Zealand). Those standards require that we comply with 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as 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.

Other than in our capacity as auditor, we have no relationship with or interests in Mercer Group Limited or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages 25 to 67:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Mercer Group Limited and group as at 30 June 2014, 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 section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2014:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Mercer Group Limited as far as appears from our examination of those records.

Deloitte

Chartered Accountants
29 August 2014
Auckland, New Zealand

MERCER GROUP LIMITED

www.mercers.co.nz

Mercer