

Mercer



Interim Report **2012**





Contents

Chief Executive Officer and Chairman's report	4
Consolidated statement of comprehensive income	7
Consolidated balance sheet	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flow	10
Notes to the financial statements	11
Note 1 General information	11
Note 2 Summary of significant accounting policies	11
Note 3 Critical accounting estimates and judgements	12
Note 4 Segmental reporting	13
Note 5 Income tax	14
Note 6 Subsidiary companies and business combinations	15
Note 7 Property, plant and equipment	16
Note 8 Intangible assets	16
Note 9 Related party transactions	16
Note 10 Dividends	17
Note 11 Commitments	17
Note 12 Contingent liabilities	18



Chief Executive Officer and Chairman's Report

Mercer continues its expansion through developing solutions for international markets

Mercer has continued its progress of improved earnings, reporting a surplus before finance cost of \$0.9m (after depreciation of \$0.4m) for the first half of the 2013 financial year compared to a deficit of \$1.0m in the same period last year. This was generated from revenues of \$21.8m, up \$5.2m from the previous year. The Net Profit after Tax for the six month period was \$0.6m.

Highlights of the six month period include:

- Revenue growth of \$5.2m versus the same period in 2012.
- Greater EBITDA in the first half of 2013 than the full 2012 financial year.
- Compliance with banking covenants.
- Improving safety with no LTIs.

Mercer Stainless

The Stainless division comprises the fabrication workshops in Christchurch and New Plymouth, an operation in Nelson and a branch in Brisbane, Australia. The division is a fabricator and manufacturer of equipment, predominantly in stainless steel for the food industry. The acquisition of Titan Slicers sits in this division.

The Stainless division had a strong first half with a sale of four Titan slicing lines into Canada and the Darfield Stage 2 construction via GEA providing the backbone of work. In addition, there have been good sales of BetaVac machines and our proprietary PV Valves. As a new initiative, we sold our first three packaging erectors into the apple sector through Carter Holt Harvey.

The Stainless division reported sales revenue of \$16.8m, some \$6.6m higher than last year. EBITDA was \$2.0m compared to breakeven last year.

The Stainless division's order book is strong with full workshops through until June. We have good forward orders of Aico Packaging equipment in particular. We anticipate a good second half result from this division and we are increasing staffing levels as we grow Titan and other equipment sales.

Mercer Interiors

The Interiors division manufactures in New Zealand and supplies sinks, basins, tubs, toilets, laminate, solid surface material and other similar products to joiners, merchants, fabricators and other manufacturers in New Zealand. Interiors also has the exclusive rights to sell the Wilsonart brand of laminate in the New Zealand market.

The New Zealand Interiors business has seen some increase in sales during the half year and we expect further momentum in the second half on the back of the Christchurch rebuild and a general upturn in building consents.



In Australia, Interiors has had difficulties with its distributor and sales have been disappointing. We have signed a new supply contract with another customer that will add to volumes and ensure an improved performance in the second half.

Interiors revenue was \$3.9m for the half year, \$0.5m lower than last year due to the Australian result while EBITDA was \$0.1m, up from a loss of \$0.1m in the same period last year.

Mercer Medical

Mercer Medical is a division supplying equipment and related products and services for sterilization, washing and disinfection.

During the period Mercer Medical increased its focus on the servicing capability which has become the backbone of the division. In addition, we received orders for the first three MMM sterilizers into the New Zealand market. These together with other anticipated capital sales will become evident in the second half financial results. Mercer Medical was break-even during the period.

Mercer Technologies (R&D)

During the first half we appointed Alan Dowman as General Manager of Mercer Technologies, strengthening our research and development capability. This has resulted in progress being made across our four primary R&D projects. We are still confident of commercializing at least one of these projects in the second half.

People and processes

We are continuing to recruit new talent into the Company as we focus on becoming a more market focused and customer oriented organization with people who have a passion for providing innovative solutions to their customers.

The Directors would like to acknowledge the long-standing contribution of Stuart Heal who retired from the Board in November 2012; and to also acknowledge the very significant input from Terry Moratti for over 47 years who is retiring as New Plymouth Manager.

Health and Safety

We are proud to announce no Lost Time Injuries in the first half of the 2013 financial year.

Banking

We have a good relationship with our bank, the BNZ, and are compliant with our banking covenants. The Company has debt of \$5.4m and an overdraft facility of \$1.6m. The debt was increased by \$0.5m to help purchase Titan, but we have since repaid \$0.4m. The overdraft at the half-year end is higher due to increased working capital, particularly to fund the Titan install in Canada and to increase inventory of Wilsonart laminates.



Chief Executive Officer and Chairman's Report (continued)

Dividend

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

Outlook

The Company believes it has some good opportunities in front of it and is providing guidance of \$3m EBITDA for the 12 month period to 30 June 2013.

Garry Diack
Chairman

Rodger Shepherd
Chief Executive



Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2012



		Unaudited 6 Months ended 31 December 2012 \$'000	Unaudited 6 Months ended 31 December 2011 \$'000
	Notes		
Continuing operations			
Revenue	4	21,844	16,605
Cost of Sales		(12,644)	(10,353)
Gross profit		9,200	6,252
Expenses			
Salaries and wages		(3,949)	(3,342)
Rental and operating leases		(681)	(686)
Depreciation and amortisation	4	(424)	(422)
Restructure costs		-	(250)
Other expenses		(3,201)	(2,588)
Other income		-	21
Surplus (deficit) before finance cost		945	(1,015)
Finance costs net		(198)	(184)
Share of profits of associate		59	-
Surplus (deficit) before taxation		806	(1,199)
Income tax (charge) credit	5	(217)	118
Surplus (deficit) after tax attributable to shareholders	4	589	(1,081)
Other Comprehensive Income			
Currency translation differences		(19)	(146)
Other comprehensive income for the period, net of tax		(19)	(146)
Total comprehensive income for the period		570	(1,227)
Attributable to:			
- Owners of the parent		461	(1,227)
- Non-controlling interest		109	-
Total		570	(1,227)
Basic earnings per share:			
Surplus (deficit) per share attributable to the shareholders of the company (cents)		0.18	(0.55)
Fully diluted earnings per share:			
Surplus (deficit) per share attributable to the shareholders of the company (cents)		0.14	(0.40)
Net tangible assets per share cents		5.22	5.82

The accompanying notes on pages 11 to 18 form part of these Financial Statements.



Consolidated Balance Sheet

As at 31 December 2012

		Unaudited 31 December 2012 \$000	Audited 30 June 2012 \$000
	Note		
ASSETS			
Current assets			
Cash and bank balances		236	648
Accounts receivable		5,951	5,925
Other debtors and prepayments		261	374
Inventories and work in progress		5,153	3,332
Total current assets		11,601	10,279
Non-current assets			
Property, plant and equipment	7	8,923	8,927
Investment in associate	6	59	-
Intangible assets	8	4,679	3,637
Deferred tax assets		4,150	4,367
Total non current assets		17,811	16,931
Total assets	4	29,412	27,210
LIABILITIES			
Current liabilities			
Bank overdrafts		700	-
Trade and other payables		5,400	4,965
Employee entitlements		841	852
Derivative financial instruments		-	17
Borrowings		720	600
Total current liabilities		7,661	6,434
Non current liabilities			
Borrowings		4,652	4,367
Total liabilities		12,313	10,801
NET ASSETS		17,099	16,409
EQUITY			
Ordinary shares		29,066	28,981
Other reserves		1,885	1,932
Retained earnings		(14,001)	(14,504)
		16,950	16,409
Non-controlling interest		149	-
Total equity		17,099	16,409

The accompanying notes on pages 11 to 18 form part of these Financial Statements.

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2012



	Attributable to Owners of the Group					
	Contributed Equity	Retained Earnings	Foreign Translation Reserves	Asset Revaluation Reserves	Total	
	\$'000	\$'000	\$'000	\$'000	\$'000	Total Equity \$'000
Balance as at 1 July 2011	27,981	(13,598)	(115)	2,149	16,417	16,417
Deficit for the period	-	(1,081)	-	-	(1,081)	(1,081)
Foreign currency translation reserve movement	-	-	(146)	-	(146)	(146)
Total comprehensive income for the period	-	(1,081)	(146)	-	(1,227)	(1,227)
Balance as at 31 December 2011 (unaudited)	27,981	(14,679)	(261)	2,149	15,190	15,190
Balance as at 1 July 2012	28,981	(14,504)	(161)	2,093	16,409	16,409
Surplus for the period	-	480	-	-	480	589
Asset revaluation reserve movement	-	28	-	(28)	-	-
Foreign currency translation reserve movement	-	-	(19)	-	(19)	(19)
Total comprehensive income for the period	-	508	(19)	(28)	461	570
Acquisition of subsidiary	-	-	-	-	-	40
Value of employee services	-	80	-	-	80	80
Issue of new shares	85	(35)	-	-	-	-
Balance as at 31 December 2012 (unaudited)	29,066	(14,001)	(180)	2,065	16,950	17,099

The accompanying notes on pages 11 to 18 form part of these Financial Statements.



Consolidated Statement of Cash Flow

For the half year ended 31 December 2012

	Unaudited 6 Months ended 31 December 2012 \$'000	Unaudited 6 Months ended 31 December 2011 \$'000
Cash flow from operating activities		
Cash receipts from customers	21,818	19,349
Cash paid to suppliers and employees	(21,577)	(18,383)
Interest on borrowings	(197)	(192)
Income taxes paid	-	2
Net cash inflow from operating activities	44	776
Cash flow from investing activities		
Cash was provided from:		
Purchase of property, plant & equipment	(308)	(131)
Proceeds from sale of property, plant & equipment	-	34
Acquisition of subsidiary, net of cash acquired	(750)	-
Purchase of intangible assets	(177)	(12)
Net cash (outflow) from investing activities	(1,235)	(109)
Cash flow from financing activities		
Proceeds from new borrowings	500	5,850
Repayment of borrowings	(421)	(6,466)
Net cash inflow (outflow) from financing activities	79	(616)
Net (decrease) increase in cash, cash equivalents and bank overdrafts held	(1,112)	52
Cash, cash equivalents and bank overdrafts held at beginning of period	648	(219)
Exchange	-	(22)
Cash and bank balances less bank overdraft at end of period	(464)	(189)
Cash balance	236	-
Bank overdraft	(700)	(189)
Cash and bank balances less bank overdraft at end of period	(464)	(189)

The accompanying notes on pages 11 to 18 form part of these Financial Statements.



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 18 of the Annual Report together with Titan Slicer Limited, in which the Group acquired a 75% interest on 3 July 2012. The core activities of the Mercer Group are:

- Stainless steel fabrication and equipment manufacture and supply by Mercer Stainless workshops in Christchurch, New Plymouth, Nelson and Brisbane.
- The manufacture in Christchurch and supply to New Zealand and Australia of kitchen, bathroom and laundry products by Mercer Interiors (formerly Products).
- 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 27 February 2013.

2. Summary of significant accounting policies

(a) Basis of preparation

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

Entities reporting

The financial statements are for 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.



Notes to the Financial Statements (continued)

For the half year ended 31 December 2012

The condensed consolidated interim financial information for the six months ended 31 December 2012 has been prepared in accordance with IAS 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the Annual Financial Statements for the year ended 30 June 2012, which were prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). They also comply with International Financial Reporting standards (IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

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) Changes in accounting policies

There have been no significant changes in accounting policies from those applied by the Group in the financial statements as at 30 June 2012. Those accounting policies are set out in the Mercer Group Limited 2012 Annual Report.

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

(c) New standards and amendment

New standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2012 and which are relevant to the Group are set out in the Annual Report. These amendments have not resulted in material accounting or disclosure changes for the Group.

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

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS require 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.

There have been no changes to critical accounting estimates and judgements as at 31 December 2012 from those applied at 30 June 2012.



4. Segmental Reporting

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

Stainless Fabrication: The division includes the fabrication workshops in Christchurch and New Plymouth operated by Mercer Stainless Limited and the office in Brisbane, Australia operated by Mercer Technologies Pty Limited. The division also includes Titan Slicers Limited which has a branch in Nelson, which was acquired on 3 July 2013.

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

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

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

	Unaudited 6 Months ended 31 December 2012 \$'000			Unaudited 6 Months ended 31 December 2011 \$'000		
	Total sales revenue	Segment result (EBITDA)	Segment assets	Total sales revenue	Segment result (EBITDA)	Segment assets
Stainless Fabrication	16,828	1,972	9,836	10,287	27	7,784
Mercer Interiors	3,947	105	7,235	4,483	(87)	7,799
Mercer Medical	1,163	16	1,041	2,177	(10)	320
Corporate	-	(724)	11,300	8	(525)	10,985
Intersegment eliminations	(94)	-	-	(350)	-	-
Finance costs	-	(198)	-	-	(184)	-
Depreciation and amortisation	-	(424)	-	-	(422)	-
Share of profits of associate	-	59	-	-	-	-
Income tax (charge) credit	-	(217)	-	-	120	-
Total Group	21,844	589	29,412	16,605	(1,081)	26,888

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



Notes to the Financial Statements (continued)

For the half year ended 31 December 2012

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

	Unaudited 6 months ended 31 December 2012 \$000	Unaudited 6 months ended 31 December 2011 \$000
New Zealand	13,389	12,292
Australia	208	331
Total	13,597	12,623

5. Income tax

Numerical reconciliation of income tax charge (credit) to prima facie tax payable:

	Unaudited 6 months ended 31 December 2012 \$000	Unaudited 6 months ended 31 December 2011 \$000
Surplus (deficit) before tax	806	(1,199)
Share of profits of associate	59	-
Expenditure not deductible	-	-
Surplus (deficit) subject to tax	865	(1,199)
Tax at the New Zealand tax rate of 28%	242	(336)
Deferred tax on buildings	8	-
Difference due to overseas tax rates	(4)	(16)
Current Year Tax losses in Australia not recognised	(29)	234
Income tax charge (credit)	217	(118)

The Group is not aware of any breach of shareholder continuity rules and has continued to recognise a deferred tax asset in respect of New Zealand tax losses carried forward.

At 31 December 2012 there were \$9,585,000 (June 2012 \$9,396,000) of unrecognised tax losses, representing a tax benefit of \$2,876,000 (June 2012 \$2,819,000). Unrecognised deferred tax balances represent tax losses in Australia that have not been recognised due to the lack of certainty that future taxable income will be earned.



6. Subsidiary companies and business combinations

The principal trading subsidiaries at 31 December 2012, which unless otherwise disclosed are 100% owned and have a 30 June balance date, comprise:

Mercer Stainless Limited - a manufacturer and supplier of stainless steel products;
Mercer Products Pty Limited - a distributor of stainless steel products;
Mercer Technologies Pty Limited - a supplier of stainless steel products; and
Titan Slicers Limited (75% owned) - a manufacturer and supplier of stainless steel products.

On 3 July 2012, the Group acquired 75% of the share capital of Titan Slicers Limited, a manufacturer and supplier of stainless steel products to New Zealand and overseas customers. Titan Slicers Limited was established to acquire certain assets and liabilities of an entity that 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 \$877,000 arising from the acquisition is attributable to management capabilities and the economies of scale from combining the operation of the Group and Titan Slicers Limited. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

	Unaudited 31 December 2012 \$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	416
Trade and other payables	(29)
Borrowings	(327)
Total identifiable net assets	158
Non-controlling interest	(40)
Controlling interest goodwill	877
Total	995



Notes to the Financial Statements (continued)

For the half year ended 31 December 2012

The deferred consideration is payable in the next twelve months. Acquisition related costs of \$100,000 were charged to administrative expenses in the consolidated income statement for the period ended 31 December 2012. The fair value of the net intangible assets is provisional. The non-controlling interests have been recognised as a proportion of net assets acquired.

The revenue included in the consolidated statement of comprehensive income since 3 July 2012 contributed by Titan Slicers Limited was \$6,711,000. Titan Slicers Limited also contributed profit of \$435,000 over the same period of which \$109,000 is attributable to the non-controlling interests.

A new entity, Titan Design Limited was established on 3 July 2012. This Group has a 25% investment in Titan Design Limited which receives commission on the sale of stainless steel products. The Group recognised \$59,000 share of profits of associate.

7. Property, Plant and Equipment

During the period to 31 December 2012 the Group acquired plant and equipment with a cost of \$308,000 (2011: \$131,000) excluding \$98,000 on the purchase of Titan Slicers Limited.

8. Intangible assets

During the period to 31 December 2012 the Group's goodwill increased by \$877,000 following the acquisition of 75% of Titan Slicers Limited. The Group also acquired patents, trademarks and licenses and development assets of \$177,000.

9. Related Party Transactions

(a) Directors

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

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

P Smart was appointed on 31 July 2012. P Hewitson resigned on 31 July 2012 and S Heal resigned on 28 November 2012.

(b) Warrants

Murray Capital Rakaia Fund Ltd Partnership has 34,371,533 warrants at an exercise price of \$0.05 per share which can be exercised before 16 December 2013 in parcels of at least 5,000,000 warrants. Any warrants not exercised by this date will expire.



(c) Key management compensation

Key management compensation for the period ended 31 December 2012 and the period ended 31 December 2011 is set out below. The key management personnel are the executives with the greatest authority for the strategic direction and management of the Group.

	Unaudited 6 months ended 31 December 2012 \$000	Unaudited 6 months ended 31 December 2011 \$000
Short term benefits	837	736
Long term benefits	16	16
Share based payments	116	36
Total	969	788

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

R Shepherd has options to purchase:

- 14,285,714 shares at \$0.070 per share on 2 February 2014; and
- 11,764,706 shares at \$0.085 per share on 2 December 2014.

T Blathwayt, Chief Financial Officer, has options to purchase:

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

10. Dividends

During the six months ended 31 December 2012, Mercer Group paid no dividends (six months ended 31 December 2011 \$Nil).

11. Commitments

The Group had commitments for future capital expenditure as at 31 December 2012 amounting to \$100,000 (June 2012: \$Nil).



Notes to the Financial Statements (continued)

For the half year ended 31 December 2012

12. Contingent liabilities

	Unaudited 31 December 2012 \$'000	Audited 30 June 2012 \$'000
Guarantees to bankers for bank overdraft facilities for subsidiaries to a limit of	1,600	1,000
Guarantees to bankers for credit card facilities up to a limit of	95	95
Guarantees to bankers for bank guarantees issued to third parties for which it is anticipated that no material liabilities will arise	2,062	1,686
Total	3,757	2,781





