



# **ANNUAL REPORT**

# **2016**

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# Director's Report



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# Chairman's Review

In the annual report to shareholders last year, I said that we had taken the first steps towards profitability and that we needed to be fit for purpose and fit for the future.

Those steps included a commitment to disposing of the Medical and Interior divisions and I am pleased to report that these sales have been completed. While there are additional provisions resulting which are reported in the financial statements, the sales processes and 'wash ups' further confirmed that these disposals were not only appropriate, but timely.

The report also commented that vision, execution and rigorous attention to detail have to be exemplary to meet the challenges of returning the group to profitability. Some of those steps, which will be enlarged on by your CE, Richard Rookes, include:

- The appointment of Ian McGregor as CFO; Ian has brought a much needed professionalism and rigour to our systems, notably in instituting much needed and previously absent, reporting protocols and controls across our procurement, manufacturing, finance and sales teams.
- The consolidation of our manufacturing facilities and head office to Christchurch.

- A comprehensive review of our S-Clave strategy which has taken a meaningful step forward with the signing of a Heads of Agreement with A.E.Atherton and Sons, the Australian market leader in steam sterilisation equipment. This initiative has been fully supported by both the Callaghan Fund and our North American strategic partner both of whom have provided funding for the project.
- A detailed analysis of our target sales markets in our food processing technologies, resulting in a tighter focus for our sales teams.
- A capital raising exercise after which it will be appropriate to have a review of the composition of the board.

It is also appropriate to emphasise the significant difficulties that management and the board have had to address in the last year. Foremost amongst these was the unwinding of several Titan contracts which was both unhelpful to the Titan brand and the wider Mercer reputation, as well as the material financial costs incurred.

The Titan issues were symptomatic of wider issues within the group including a lack of oversight, a lack of adequate reporting and controls and an absence of supervisory rigour across all aspects of the group's businesses.

However, the efforts and focus of our management team, led by Richard Rookes, have been uncompromising in dealing with these issues and it is the belief of your board and management that the company has now largely 'cleared the decks' such that it can focus on two clearly defined tasks:

- Selling our food processing and packaging range profitably into our target markets, backed by a credible after sales support strategy.
- Commercialising our S-Clave technology.

In that latter regard, what also became clear during the past year was the fact that Mercer did not have, and would be unlikely to access internally, the necessary skills and focus to move the S-Clave technology forward in an acceptable time frame. I am pleased to report that we have moved forward from what was reported internally to be anything up to a further two to three years of development before being commercially ready, to our now stated aim to have a commercially operating machine presented to interested parties in this financial year.

Our industrial fabrication business will be consistently reviewed to ensure that it can meet the challenges presented by current market conditions, and most importantly, that the contracts we undertake represent a profitable return on our investment.

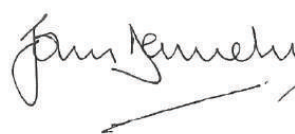
These are the clearly defined focuses and where our resources will be directed and to which we will have the commitment of our workforce. I am also pleased to note in that latter regard that we have had another exemplary year in workplace safety and once again thank all our staff for their efforts in this and all other areas.

In the last few weeks and months, the cultural changes necessary to build a sustainably profitable business have been articulated and reinforced across the company and have been broadly welcomed and well received.

It is also a matter of fact that the two Mercer businesses do not logically or comfortably fit together and as a company we will be considering all strategic and capital options in the coming year.

This may result in the separation of the S-Clave and Food Processing and Packaging business and we will keep shareholders informed as we progress decision making.

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



John Dennehy  
Chairman





# CEO Report

Mercer is a company with a rich and diverse history dating back 130 years. But history alone is not a guarantee of success in a changing world where technologies are challenging the status quo in all areas of business.

While the company has underperformed in recent years, it has some exciting technology driven products and a reputation for delivering quality goods and services. To ensure that we can maintain, and in the case of Titan, recover that reputation, we have over the past year undertaken a significant restructuring with a view to more properly focusing on the business units and technologies that have the potential to deliver long-term sustainable growth and profitability.

**130**  
**YEARS IN THE  
INDUSTRY**

The restructuring that was undertaken during the year included the following:

- The sale of the loss-making Medical division in October 2015.
- The sale of the loss-making Interiors division in February 2016.
- The closure of the loss-making Brisbane manufacturing facility in February 2016.
- The restructuring of the Stainless Fabrication business to focus on Mercer owned IP products that saw the downsizing of the New Plymouth facility and consolidation of all machine design, engineering and manufacturing to Christchurch.
- The acquisition of the remaining 25% of Titan Slicer Limited to take 100% ownership and the subsequent move of the Titan business to Christchurch.
- The relocation of the Head Office of the company to Christchurch.

The restructuring has been costly and coupled with poor operational performance in Titan and a significant downturn in the dairy sector the company recorded a Net Loss After Tax of \$6.7m. We are now focused on improving the operational performance of the business while driving a strategic shift.



### Mercer now comprises two business units:

1. **S-Clave – the disruptive sterilisation technology that is going through the commercialisation phase.**
2. **Food Processing and Packaging – the design and supply of innovative food process and packaging solutions including Titan Slicer, Aico packaging equipment, Beta range of cheese processing equipment, PV valve and the industrial fabrication business.**

### Financial Performance

Operationally the business felt the impact of the dairy downturn with a decrease in orders resulting in production downtime. On a like for like basis, sale revenue was down 17% on the prior year, with the company recording an after tax loss of \$6.7m. EBITDA for the group was a \$3.2m deficit.

During the year there were several one-off costs included in the EBITDA that totalled \$3.15m, including;

- The \$0.65m reversal of Titan margin on returned machines. This is in addition to similar provisions made in the previous year.
- The \$1.7m cost of restructuring including downsizing the fabrication business in New Plymouth, centralising the machines business to Christchurch and the relocation of head office to Christchurch.

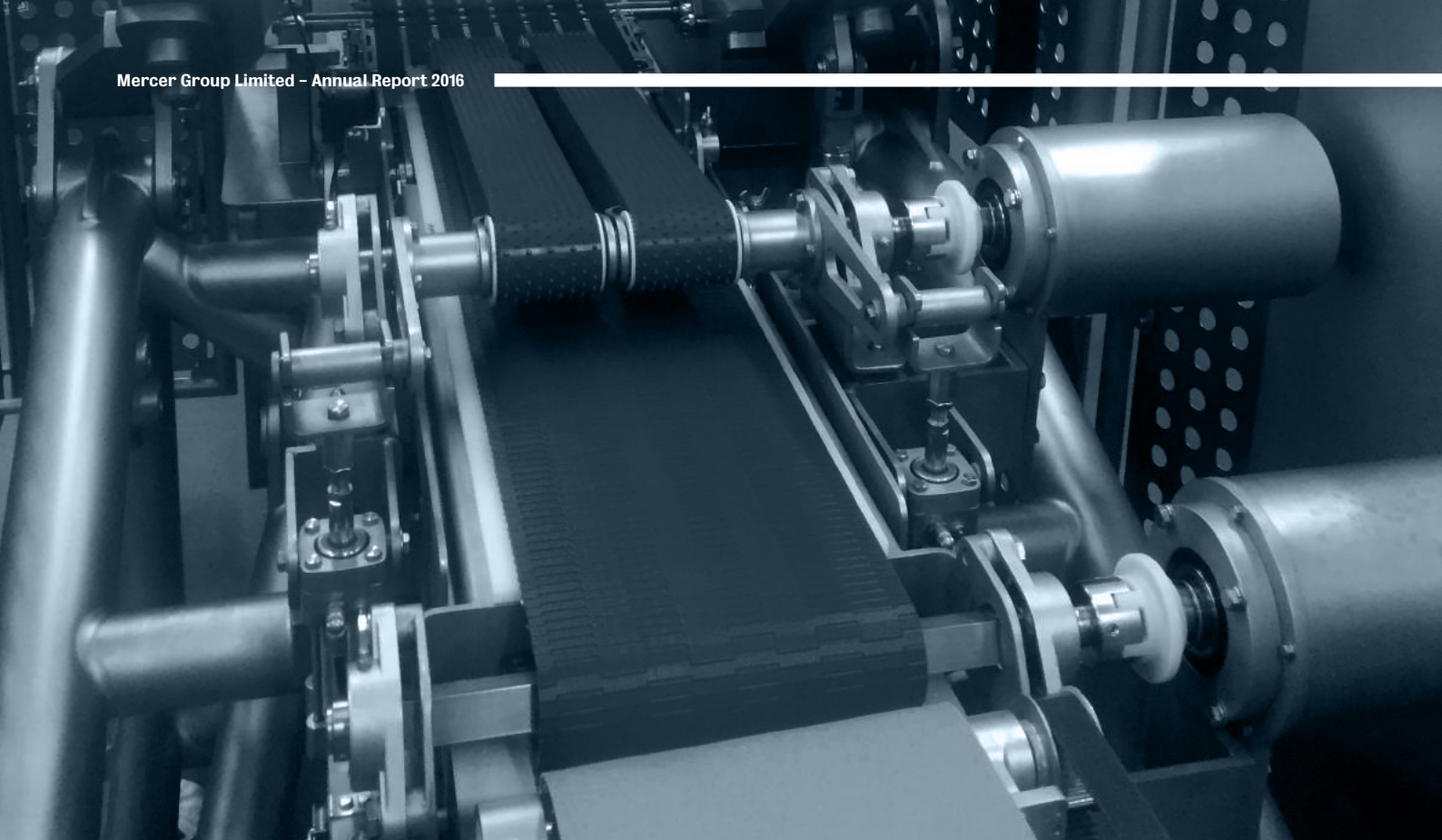
- The closure of the loss-making Australian operation resulted in a \$0.8m loss.

Cash flow from operations was a net outflow of \$1.6m. This was a \$2m improvement on the prior year largely from the release of working capital relating to the sale of Medical and Interiors which was all offset against the EBITDA loss.

In June 2016 the BNZ extended the core funding of the business comprising \$3.5m maturing 31st October 2017, \$1.9m maturing June 2019 and the \$1m overdraft facility. Bank debt has reduced from \$10.6m to \$6.0m. In March 2016 Gresham Finance advanced an additional \$3.5m loan to the business.



|   | 30 June 2016   | 30 June 2015 -<br>Restated |
|---|----------------|----------------------------|
|   | \$000          | \$000                      |
| Stainless Fabrication                                       | (2,204)        | 2,141                      |
| Titan Slicer  | (1,351)        | (1,307)                    |
| Mercer Technologies   | (64)           | (70)                       |
| Corporate   | 455            | (1,274)                    |
| <b>Total EBITDA</b>   | <b>(3,164)</b> | <b>(510)</b>               |
| Depreciation and amortisation                               | (614)          | (637)                      |
| Impairment of intangible assets                             | -              | (231)                      |
| Finance costs   | (801)          | (599)                      |
| Income tax credit (charge)                                  | (573)          | 422                        |
| Share of profits (losses) of associate                      | -              | 16                         |
| <b>Total Group loss after tax for continuing operations</b> | <b>(5,152)</b> | <b>(1,539)</b>             |



## Health and Safety

The Health and Safety of our employees and contractors continues to be a focus for the company. During the year we had 3 LTIs. Health and Safety is now being driven from the Christchurch site with assistance of a part-time contractor who was previously Mercer's Health and Safety Co-ordinator. We are secondary accredited under the ACC Workplace Safety Management Practices but are targeting being tertiary accredited during the year.

## S-Clave

The S-Clave is the patented disruptive sterilisation technology that has been developed by Mercer over a number of years. Mercer has invested \$2.1m in the S-Clave over 2 years, and has also received \$0.745m of funding from Callaghan Innovation over the same period. By way of background, the S-Clave is a sterilisation process that offers the following key benefits over the existing market practice:

- S-Clave provides a non-porous sterile barrier that eliminates the transfer of infection or cross contamination from air or waterborne bacteria. The S-Clave system is the first known technology in this field to successfully adopt and use impenetrable plastic materials in a steam sterilisation environment;
- The S-Clave rapid turnaround fast processing (RTFP) enables sub 20 min compliant processing time versus the current steam processing times of 40 to 50 mins. The S-Clave process has the potential to provide the fastest and most reliable sterilisation of critical surgical instruments for immediate use without compromising the integrity of the sterilisation process; and
- The S-Clave package is robust, transportable, provides proof of sterile integrity on delivery and will extend shelf life of sterile garments and apparatus; a significant benefit over the current porous wrap sterilised product shelf life of 2 days to 1 month.

In 2013 Mercer signed an agreement with a US based world leader in medical sterilisation ('USCo'). The agreement included an exclusive license for the USCo to use the S-Clave technology, patents and trademarks in North America. While the relationship with that company remains robust and the agreement is still in place, Mercer made a decision during the year to focus on commercialising the S-Clave in Australia and New Zealand initially. This decision was supported USCo who want to see the S-Clave research and development phase completed by Mercer before they commit further resource to it.

As referred to in the Chair's report, the decision was made to review our strategy to move the S-Clave forward towards commercialisation. The key change was to partner with industry experts to drive commercialisation, rather than undertaking all of the R&D and commercialisation in-house. While our in-house team had done a good job of securing the IP through patents and getting the technology to and past the prototype and validation phase, we saw that the fastest route to market was through collaboration with industry experts. In that regard, we required the following:

1. The final design and manufacture of the S-Clave unit;
2. A credible partner that will manage the necessary approval processes in Australasia;
3. The final plastic solution for the consumable bag and/or container; and
4. A distributor in Australia and New Zealand (which we see as the obvious markets for our initial focus).

In June 2016 Mercer signed a heads of agreement with Melbourne based A.E.Atherton & Sons ('Atherton') that will see Atherton commit resource to the final design of a commercial

ready S-Clave machine. Mercer retains all rights to existing and future IP relating to the S-Clave. It is envisaged that Atherton will manufacture the S-Clave machine at their new facility in Melbourne and will be appointed distributor of the S-Clave in Australia and New Zealand. Atherton are the market leader in steam sterilisation in Australia with equipment in more than 680 hospitals in Australia alone. We believe Atherton's manufacturing expertise and market reach provide us with a strong partner to launch the S-Clave in Australia and New Zealand.

In addition to the S-Clave machine, we are working with two leading New Zealand based plastics companies on the final design of the consumable plastic bags and containers. We have prototype containers that we are reviewing internally and showing to sterilisation departments in hospitals. The plastic solution is key to the S-Clave business model as it is the 'one use' consumable that will be used on each sterilisation cycle.

The S-Clave represents a significant opportunity for Mercer. The global sterilisation market is estimated to reach US\$6.1b by 2020, growing at a compound average growth rate of 7.8%<sup>1</sup>. A key driver of this forecast growth is the rising incidence and cost of hospital acquired infections and the increasing number of surgical procedures and hospitals globally. Steam sterilisation remains the dominant sterilisation technique, and the S-Clave offers a different approach which, as outlined above has the potential to offer a compelling development in the industry. For our sterilisation partners, being Atherton's in Australia and USCo in North America, the S-Clave offers a consumable business model which is fundamentally different to their capital equipment business model of today.

During the year Mercer received \$0.22m funding from Callaghan Innovation who continue to be supportive of the S-Clave technology and the market entry strategy we are undertaking.

We look forward to updating shareholders on the S-Clave's development over the next year, and will be providing a full overview of our S-Clave strategy at the AGM.

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**S-CLAVE:**  
**NON-**  
**POROUS**  
**20min**  
**CYCLE**  
**ROBUST &**  
**TRANSPORTABLE**  
**COST**  
**SAVINGS**

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<sup>1</sup> Source: Sterilisation Equipment Services Market report – Market and Markets



## Food Processing & Packaging

The focus, operational processes and strategies of our Food Processing and Packaging business, namely Titan Slicer, Aico, the Beta Range and PV Valves have been reassessed and prioritised. Emphasis on our own IP is paramount and particularly important as a point of difference in volatile soft commodity markets. At the same time we are comfortable with industrial fabrication business in the South Island and will continue to 'farm' our position in the dairy and food sectors.

### Titan Slicer

Mercer acquired 75% of Titan Slicer Limited in 2014. Shortly after that, the business secured a large order for four of its high end iVS500 machines to Maple Leaf based in Canada. This was a significant order at the time and while the installation and commissioning took longer than expected it did provide an important reference site for Titans target market as a bacon slicer in North America.

Subsequently, the Titan business was not able to build on that initial success and a succession of failed contracts (including a resultant return of five machines, at considerable expense) impacted the Titan reputation, particularly in the North American market. This resulted in Titan generating material financial losses in the past two years, including a loss of \$1.3m in the 2016 financial year.

We now have 100% control of Titan having acquired the remaining 25% of Titan Slicer Limited that Mercer did not own (we still own 25% of Titan Design Limited) and have moved the business to Christchurch. That has allowed us to take full control of the sales, operations and manufacturing functions of Titan and build a more cohesive strategy for growth, both internally and in the market.

Despite the poor performance of Titan in recent years, we remain confident that the changes we have made in the past year position us to grow the business on a sustainable profitable basis going forward. In the past year we undertaken the following:

- Exited all problematic R&D machines that were at various stages of development in Germany, Australia and New Zealand at significant cost to the company;
- Revitalised our relationship with our US distributor Nu-Meat and revisited our pricing in that market to ensure we are competitive;
- Developed and launched a lower cost Titan 200 machine range that has broader market appeal than the higher specification Titan 500 machines;
- Increased the focus on the Australian market where Titan has a historical installed base of over 60 machines;
- Improved our manufacturing capability in Christchurch;
- After year end, we appointed a new service manager that will better manage the servicing and spares business (across all of our product ranges) and committed to having a Mercer/Titan representative in the Canadian market to provide technical support to the entire North American market (this will be undertaken in September 2016).

We estimate the slicing market in North America to be greater than \$140m per annum. While our 'headline' slicer, the iVS500 is still a focus with its industry leading vision and grading technology, we are aware that the market at the high end is smaller and increasingly competitive which is why we have added the lower specification Titan 200 machine to our range.

Importantly, we have recently recruited a highly experienced controls engineer from a global competitor that will add much needed technical resource to the team. The controls systems within Titan (and indeed across the entire Mercer Machines portfolio) offers the opportunity to differentiate and automate entire lines.

Maple Leaf continue to be a large customer of Titan having acquired another high end iVS500 line from us in 2016 which has been installed and commissioned. We continue to have the support of NZTE which has been much appreciated.

### Aico

The Aico range of packaging equipment designs and supplies carton equipment and packaging systems into the Australasian market. Aico's key products are:

- Carton ladders for the meat industry
- Meat compactors
- Carton erectors
- Carton closers

During the financial year we sold \$1.6m of Aico equipment.

The Aico equipment was designed and manufactured in New Plymouth. This has now moved to Christchurch where we will have a broader engineering and manufacturing base. The key customers continue to be the board companies – Aico is the preferred equipment for various applications for market leaders Visy and Oji. Growth of the Aico range will be driven off closer relationships with our key customers and expansion into industries that we have not historically focused on, such as horticulture.

During the year we worked with one of our key customers on a patented R&D project, that while still confidential so we cannot disclose, offers a

material growth opportunity for our Aico business. We look forward to updating shareholders on this exciting development if and when the product is launched.

### Beta Range

The Beta range of cheese processing equipment is led by the BetaVac which is a world leader in the vacuum packing of 20kg blocks of cheese. Like the Aico equipment, the Beta Range was historically manufactured in New Plymouth but has now been moved to Christchurch.

The BetaVac's are distributed in the US by Sealed Air, a leading food processing equipment supplier.

During the year we invested in the Beta Yield system which we are seeking to launch in NZ and the US. The Beta Yield system uses stainless moulds in the cheese making process which leads to increased yields for producers. These are large systems that utilise all of the equipment in the Beta Range and would move us further up the value chain.

### PV Valve

The PV Valve is a tanker pressure vacuum valve that offers protection against volume changes during transport and normal operations on road and rail tankers. It also provides pressure and vacuum protection in potential failure situations as well as overfilling protection.

The PV Valve has been accepted as industry standard in New Zealand and is on the vast majority of dairy road tankers. The export potential of the PV Valve is now being focused on and in that regard we sold our first 12 PV Valves into Australia during the financial year and are in the process of looking at 3A approval for the US – although this is a longer term goal.





### Industrial Fabrication

The industrial fabrication business is the historical core business of Mercer that builds large scale equipment, predominantly for the dairy sector. It also undertakes the manufacturing of cooking and cooling systems for the food industry, architectural benching and general fabrication work. While the company has sought to diversify its exposure to the dairy sector in recent years, given the high levels of dairy investment in the 2014 and 2015 financial years, we were left exposed when the industry effectively stopped spending in the back half of the 2015 calendar year.

The downturn in the dairy sector saw reduced workflows across both our Christchurch and New Plymouth sites. Christchurch saw very light workflows in the lead up to Christmas 2015 and into the early part of 2016. Workflows did however increase on the back of a contract to build a large cheddaring machine.

This job provided a good base load of work for the Christchurch plant and reduced the impact at that plant of the reduced spending in the dairy sector. In addition to this, there were decent workloads in our stainless architectural benching division.

The New Plymouth site was unfortunately impacted heavily by the downturn in the dairy sector with very light workloads seen through the back end of 2015 and into 2016. This resulted in the decision to downsize the fabrication workforce in New Plymouth.

We are more comfortable with our industrial fabrication footprint in Christchurch as the South Island has the stronger medium-term dairy investment outlook and because we have a stronger market position in the South Island. The forward workloads for Christchurch are adequate, with the outlook for dairy investment appearing more positive in the South Island than the North Island.



## Properties

Mercer owns two properties – 53 Lunn's Road in Christchurch which is now our headquarters and 73 Corbett Road in Bell Block, New Plymouth.

During the year we settled our earthquake claim on the Christchurch building for \$2.675m + GST. We are now reviewing repair options for the building and expect the work to be undertaken during the 2017 financial year.

We do not see Mercer as a long-term holder of the properties and continue to review our options on them.

## Outlook

The change in focus of the company from a 'mini conglomerate' to a technology and IP driven business does not happen overnight. While the restructuring of the business is now largely complete, the cultural and operational changes within the business will take time. In the year under review here, the focus of the company has been the restructuring initiatives, building a credible finance team and implementing operational improvements across the business (although this will be ongoing into 2017).

In the Food Processing and Packaging side of the business, as we focus more of our efforts on growing our own branded products this will see the requirement for more engineering, design, electrical controls resource. Automation is a key theme within the broader food processing and packaging sectors and all of our products allow for customers to increase automation within their plants, and allow us to continue to develop the machines with increasing automation in mind. In addition,

the increasing number of machines we have in the market allow us to build out a servicing and spares business which in time should become a profit centre in itself.

We have made real progress with the S-Clave and are seeking to have a product in the market generating revenue for the company during this financial year. That would be a significant milestone and in our view a value uplift point for the technology.

As regards the future of the company as a whole, we have announced post balance date an underwritten rights issue for \$7m. These funds will be used to reduce debt and provide much needed working capital to the company. It does not, however, provide us with growth capital.



Richard Rookes  
CEO

# Our team

## Board of Directors

### **John Dennehy** **Chairman**

John joined the Mercer board in February 2015. He has served on a number of boards in the UK and New Zealand, most recently at Simcro Ltd, a Hamilton based R&D export led agritech business. John graduated in Economics and Accounting and has specific interests and experience in marketing and branding.

### **Paul Smart** **Independent Director**

Paul is a professional director and experienced finance professional. He is a Chartered Accountant and a long-standing member of the Institute of Directors and is currently a director of Intercity Group, Solarcity and a number of other private companies

Paul has had executive experience in start-ups, public companies, multi nationals and an SOE.

### **Richard Rookes** **CEO**

Richard was appointed CEO in July 2015 having been on the board since 2011. Since being appointed as CEO, Richard has driven the strategic and operational change in the business. Prior to taking the executive role at Mercer, Richard was an executive director at investment bank Murray & Co. Richard holds a BCom, Diploma for Graduates and a Post Graduate Diploma in Commerce, all from the University of Otago.

# am

## Executive Team

### **Ian McGregor** **CFO**

Ian joined Mercer in April 2016 having previously been CFO at Fisher & Paykel Finance and Manager Group Treasury at Fonterra, amongst other key commercial roles. Ian brings commercial acumen to the finance team and is implementing financial and operational improvements across the business. Ian holds a Bachelor of Business Studies and is a CPA.

### **Tom Irvine** **GM Sales**

Tom joined Mercer in 2015 and has been instrumental in 'resetting' Titan for future growth. Prior to joining Mercer, Tom was NZ Sales Manager for Heat & Control and National Sales and Business Manager for Schindler Lifts NZ. Tom holds an Electrical Trade Certificate, an NZ Certificate in Engineering from AIT and a Graduate Diploma in Business from University of Auckland.

### **Ross Coppard** **Operations**

Ross has been at Mercer since 1987 and is responsible for the safe and efficient operations of the workshops. Ross is also the key relationship manager for the fabrication business. Ross holds an NZ Certificate in Mechanical Engineering.





# Group Financial Statements

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**MOVEMENT  
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**NOTES TO THE  
FINANCIAL  
STATEMENTS**

# Directors' Report

For the year ended 30 June 2016

In the opinion of the directors of Mercer Group Limited, the financial statements and the notes, on pages 21 to 59:

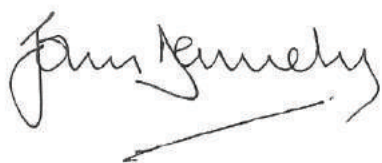
- comply with New Zealand generally accepted accounting practice and fairly represents the financial position of the Group as at 30 June 2016 and the results of their operations and cash flows for the year ended on that date.
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

The directors are pleased to present the financial report, incorporating the financial statements of Mercer Group Limited for the year ended 30 June 2016.

The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 26 August 2016.



John Dennehy, Chairman.



Paul Smart, Director.

# Group Statement of Comprehensive Income

For the year ended 30 June 2016

|  | Notes | 30 June 2016<br>\$000 | 30 June 2015<br>\$000<br>Restated |
|--|-------|-----------------------|-----------------------------------|
| <b>Continuing Operations</b>   |       |                       |                                   |
| <b>Revenue</b>   |       |                       |                                   |
| Sale of goods and contract revenue   | 6     | 23,308                | 32,224                            |
| Other income   | 7     | 2,796                 | 212                               |
| <b>Total income</b>  |       | <b>26,104</b>         | <b>32,436</b>                     |
| <b>Expenses</b>  |       |                       |                                   |
| Changes in inventories of finished goods and work in progress                                |       | (10,775)              | (14,525)                          |
| Salaries and wages   |       | (11,577)              | (12,921)                          |
| Rental and operating leases  |       | (486)                 | (477)                             |
| Other expenses   | 8     | (4,551)               | (4,607)                           |
| Depreciation   |       | (546)                 | (554)                             |
| Amortisation   | 15    | (68)                  | (83)                              |
| Impairment of intangible assets  |       | -                     | (231)                             |
| Restructuring costs  |       | (1,656)               | -                                 |
| Development costs  |       | (223)                 | (416)                             |
| <b>Continuing operations deficit before finance costs &amp; share of profit of associate</b> |       | <b>(3,778)</b>        | <b>(1,378)</b>                    |
| Finance costs  |       | (801)                 | (599)                             |
| Share of profits of associate  | 17    | -                     | 16                                |
| <b>Continuing operations deficit before taxation</b>   |       | <b>(4,579)</b>        | <b>(1,961)</b>                    |
| Income tax credit (expense)  | 10    | (573)                 | 422                               |
| <b>Continuing operations deficit after taxation</b>  |       | <b>(5,152)</b>        | <b>(1,539)</b>                    |
| <b>Discontinued operations</b>   |       |                       |                                   |
| Deficit from discontinued operations   | 29    | (1,576)               | (5,486)                           |
| <b>Discontinued operations deficit after taxation</b>  |       | <b>(1,576)</b>        | <b>(5,486)</b>                    |
| <b>Deficit after taxation</b>  |       | <b>(6,728)</b>        | <b>(7,025)</b>                    |
| Attributable to:   |       |                       |                                   |
| - Owners of the parent   | 21    | (6,467)               | (6,718)                           |
| - Non-controlling interest   |       | (261)                 | (307)                             |
|  |       | <b>(6,728)</b>        | <b>(7,025)</b>                    |
| <b>Other comprehensive (loss) income</b>   |       |                       |                                   |
| Items that may be subsequently charged or credited to profit and loss                        |       |                       |                                   |
| Currency translation differences   | 21    | (69)                  | (93)                              |
| Reversal of FCTR   | 21    | 367                   | -                                 |
| Items that will not be subsequently charged or credited to profit and loss                   |       |                       |                                   |
| Asset revaluation reserve movement   | 21    | 57                    | -                                 |
| <b>Other comprehensive (loss) income for the year, net of tax</b>                            |       | <b>355</b>            | <b>(93)</b>                       |
| <b>Total comprehensive (loss) income for the period</b>                                      |       | <b>(6,373)</b>        | <b>(7,118)</b>                    |
| Attributable to:   |       |                       |                                   |
| - Owners of the parent   |       | (6,112)               | (6,811)                           |
| - Non-controlling interest   |       | (261)                 | (307)                             |
| <b>Total</b>   |       | <b>(6,373)</b>        | <b>(7,118)</b>                    |
| <b>Basic earnings per share:</b>   |       |                       |                                   |
| Deficit per share attributable to shareholders of the company (cents)                        | 23    | (2.07)                | (2.21)                            |
| <b>Fully diluted earnings per share:</b>   |       |                       |                                   |
| Deficit per share attributable to shareholders of the company (cents)                        | 23    | (2.07)                | (2.21)                            |

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



# Group Statement of Financial Position

For the year ended 30 June 2016

|                                  | Notes | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|----------------------------------|-------|-----------------------|-----------------------|
| <b>ASSETS</b>                    |       |                       |                       |
| <b>Current assets</b>            |       |                       |                       |
| Cash and bank balances           | 11    | 13                    | 157                   |
| Accounts receivable              | 12    | 2,311                 | 8,679                 |
| Other debtors and prepayments    | 12    | 868                   | 1,127                 |
| Inventories                      | 13    | 4,245                 | 7,335                 |
| <b>Total current assets</b>      |       | <b>7,437</b>          | <b>17,298</b>         |
| <b>Non current assets</b>        |       |                       |                       |
| Other debtors and prepayments    | 12    | 1,211                 | 739                   |
| Property, plant and equipment    | 14    | 6,781                 | 8,615                 |
| Intangible assets                | 15    | 4,548                 | 4,001                 |
| Deferred tax asset               | 16    | 4,754                 | 5,328                 |
| Investment in associate          | 17    | 16                    | 16                    |
| <b>Total non current assets</b>  |       | <b>17,310</b>         | <b>18,699</b>         |
| <b>Total assets</b>              |       | <b>24,747</b>         | <b>35,997</b>         |
| <b>LIABILITIES</b>               |       |                       |                       |
| <b>Current liabilities</b>       |       |                       |                       |
| Bank overdraft                   | 11    | 492                   | 2,785                 |
| Trade and other payables         | 18    | 5,069                 | 9,135                 |
| Employee entitlements            |       | 802                   | 1,170                 |
| Borrowings                       | 19    | 4,200                 | 8,207                 |
| <b>Total current liabilities</b> |       | <b>10,563</b>         | <b>21,297</b>         |
| <b>Non current liabilities</b>   |       |                       |                       |
| Borrowings                       | 19    | 5,847                 | 90                    |
| <b>Total liabilities</b>         |       | <b>16,410</b>         | <b>21,387</b>         |
| <b>Net assets</b>                |       | <b>8,337</b>          | <b>14,610</b>         |
| <b>EQUITY</b>                    |       |                       |                       |
| Share capital                    | 20    | 33,475                | 33,475                |
| Other reserves                   | 21    | 2,981                 | 2,526                 |
| Retained earnings                | 21    | (28,119)              | (21,063)              |
|                                  |       | <b>8,337</b>          | <b>14,938</b>         |
| Non-controlling interest         |       | -                     | (328)                 |
| <b>Total equity</b>              |       | <b>8,337</b>          | <b>14,610</b>         |

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

# Group Statement of Movements in Equity

For the year ended 30 June 2016

| Attributable to the owners of the Group       |                         |                             |  |  |                                     |                 |                                    |                        |
|---|-------------------------|-----------------------------|--|--|-------------------------------------|-----------------|------------------------------------|------------------------|
| Notes   | Share capital<br>\$'000 | Retained earnings<br>\$'000 | Share based payments reserve<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Asset revaluation reserve<br>\$'000 | Total<br>\$'000 | Non-controlling interest<br>\$'000 | Total equity<br>\$'000 |
| Balance at 30 June 2014                       | 32,146                  | (14,345)                    | 88                                     | (206)  | 2,814                               | 20,497          | (21)                               | 20,476                 |
| Foreign currency translation reserve movement | 21                      | -                           | -                                      | (92)   | -                                   | (92)            | -                                  | (92)                   |
| Deficit for the year                          | 21                      | (6,718)                     | -                                      | -  | -                                   | (6,718)         | (307)                              | (7,025)                |
| Total comprehensive income for the year       | -                       | (6,718)                     | -                                      | (92)   | -                                   | (6,810)         | (307)                              | (7,117)                |
| Value of employee services                    | 21                      | -                           | 28                                     | -  | -                                   | 28              | -                                  | 28                     |
| Issue of new shares                           | 20,21                   | 1,329                       | (106)                                  | -  | -                                   | 1,223           | -                                  | 1,223                  |
| <b>Balance at 30 June 2015</b>                | <b>33,475</b>           | <b>(21,063)</b>             | <b>10</b>                              | <b>(298)</b>                                   | <b>2,814</b>                        | <b>14,938</b>   | <b>(328)</b>                       | <b>14,610</b>          |
| Foreign currency translation reserve movement | 21                      | -                           | -                                      | (69)   | -                                   | (69)            | -                                  | (69)                   |
| Transfer of FCTR to profit and loss           | 21                      | -                           | -                                      | 367  | -                                   | 367             | -                                  | 367                    |
| Asset revaluation reserve movement            | 21                      | -                           | -                                      | -  | 57                                  | 57              | -                                  | 57                     |
| Deficit for the year                          | 21                      | (6,467)                     | -                                      | -  | -                                   | (6,467)         | (261)                              | (6,728)                |
| Total comprehensive income for the year       | -                       | (6,467)                     | -                                      | 298  | 57                                  | (6,112)         | (261)                              | (6,373)                |
| Value of employee services                    | 21                      | -                           | 100                                    | -  | -                                   | 100             | -                                  | 100                    |
| Acquisition of non-controlling interest       | 17                      | (589)                       | -                                      | -  | -                                   | (589)           | 589                                | -                      |
| <b>Balance at 30 June 2016</b>                | <b>33,475</b>           | <b>(28,119)</b>             | <b>110</b>                             | <b>-</b>                                       | <b>2,871</b>                        | <b>8,337</b>    | <b>-</b>                           | <b>8,337</b>           |

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

# Group Statement of Cash Flow

For the year ended 30 June 2016

|  | Notes | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-------|-----------------------|-----------------------|
| <b>Operating activities</b>                                |       |                       |                       |
| Deficit after tax  |       | (6,728)               | (7,025)               |
| Income tax recognised in Statement of Comprehensive Income |       | 573                   | (1,506)               |
| Depreciation and amortisation                              |       | 814                   | 995                   |
| Inventory provision  |       | -                     | 1,716                 |
| Provision for restructuring continuing operations          |       | 618                   | -                     |
| Loss on sale of discontinued operations                    | 29    | 350                   | -                     |
| Loss on sale of plant & equipment                          |       | 268                   | -                     |
| Reversal of FCTR   |       | 367                   | -                     |
| Share based payment  |       | 100                   | 28                    |
| Impairment of intangible assets                            |       | -                     | 3,280                 |
| Impairment of plant and equipment                          |       | -                     | 984                   |
| Other non-cash items                                       |       | (13)                  | (44)                  |
| Changes in working capital                                 | 24    | 2,025                 | (2,037)               |
| <b>Net cash inflow (outflow) by operating activities</b>   |       | <b>(1,626)</b>        | <b>(3,609)</b>        |
| <b>Investing activities</b>                                |       |                       |                       |
| Cash was provided (to) from :                              |       |                       |                       |
| Purchase of property, plant and equipment                  | 14    | (332)                 | (720)                 |
| Purchase of patents and development activities             | 15    | (727)                 | (981)                 |
| Proceeds from sale of discontinued divisions               | 29    | 3,153                 | -                     |
| <b>Net cash (outflow) from investing activities</b>        |       | <b>2,094</b>          | <b>(1,701)</b>        |
| <b>Financing activities</b>                                |       |                       |                       |
| New borrowings   |       | 4,250                 | 1,776                 |
| Issue of new shares  |       | -                     | 1,251                 |
| Repayment of borrowings                                    |       | (2,500)               | (299)                 |
| <b>Net cash inflow from financing activities</b>           |       | <b>1,750</b>          | <b>2,728</b>          |
| <b>Net (decrease) increase in cash held</b>                |       | <b>2,218</b>          | <b>(2,582)</b>        |
| Cash (Overdraft) at beginning of the year                  |       | (2,628)               | 46                    |
| Effect of exchange rate changes                            |       | (69)                  | (92)                  |
| <b>Cash and bank balances at the end of the year</b>       | 11    | <b>(479)</b>          | <b>(2,628)</b>        |

The above Statement of Cash Flow should be read in conjunction with the accompanying notes.

The Statement of Cash Flow is exclusive of GST.

# Notes to the Group Financial Statements

For the year ended 30 June 2016

## 1. General information

Mercer Group Limited is a limited liability company which is incorporated and domiciled in New Zealand. The address of its registered office is 53 Lunns Rd, Sockburn, Christchurch. It is registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013.

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:

- **Stainless Fabrication:** This division designs and supplies food processing and packaging equipment including Titan Slicers, Aico and Beta range. It also undertakes fabrication predominately for the dairy sector.
- **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. The division was sold in February 2016.
- **Mercer Medical:** The division supplies equipment and related products and services for sterilization, washing and disinfection. The division was sold in October 2015.
- **Mercer Technologies:** The division holds the S-clave technology which the group is commercialising.

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

The financial statements have been approved for issue by the Board of Directors on 26 August 2016.

## 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. Information on the application of the going concern assumption is included in Note 3.

### Entities reporting

The financial statements are for the consolidated economic entity comprising Mercer Group Limited and its subsidiaries (together “the Group”).

### Statutory base

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013. In accordance with the Financial Markets Conduct Act 2013 separate financial statements for the parent company are no longer required.

These consolidated financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (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

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.

### 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.



# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## (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 other comprehensive income from the date the Company gains control until the date when the company ceases to control the subsidiary.

Profit or loss 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 in 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.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 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 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 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.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

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 Group 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. Where the grant is funding an asset the grant is credited against the asset value.

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.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

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 are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference 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.



# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## (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.

## 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.

## (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

### 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.

## (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 Group Financial Statements cont.

For the year ended 30 June 2016

## (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 (e.g. over the counter derivatives) is determined using valuation techniques.

## (p) Property, plant and equipment

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

Negative goodwill arising on an acquisition is recognised directly in the profit or loss.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## (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 is able to and 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; and
- adequate technical, financial and other resources are available to complete the development and to use or sell the product.

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

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.

## (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.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

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.

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**

During the period Mercer Medical and Mercer Interiors were sold. Accordingly these divisions are reflected as discontinued operations in the Statement of Comprehensive Income, with comparatives figures restated.



# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## (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 2016.

## (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.

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 2016. 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 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, hedge accounting and impairment. 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 this standard from 1 July 2018.

- NZ IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. 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.

- NZ IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. NZ IFRS 16 addresses recognition of leases. It replaces the current lease guidance in NZ IAS 17 Leases and is applicable to all entities with leases. It remove the distinction between operating and finance leases, however, there are some exemptions for short term leases and leases of low value assets. The group is yet to assess NZ IFRS 16's full impact. The group will apply this standard when it becomes mandatory.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 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 and the tangible assets, where there is an indication of a possible impairment of each cash generating unit, 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.

### 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 notes 4 and 14.

### Going concern

The financial statements have been prepared using the going concern assumption. For the year ended 30 June 2016 the Group recorded a net loss after tax of \$6,728,000, which included a number of one off restructuring costs of \$1,656,000 and the net loss of \$350,000 on disposal of two businesses.

As at 30 June 2016 the Company had renegotiated its banking facilities and covenants were not applicable as at 30 June 2016. New covenants become applicable on 30 June 2017 for which compliance is forecasted. The Company maintains two term facility limits of \$3,500,000 and \$1,948,000. These now mature on 31 October 2017 and on 17 June 2019 respectively. The Company also had a \$1,000,000 overdraft facility with \$508,000 available limit.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

On 22 July 2016 the Company negotiated an additional \$1,000,000 'Temporary Overdraft' which is to be used mainly for costs associated with restructuring. The Temporary Overdraft is to be paid back in full from the proceeds of the planned capital raise in October 2016.

The Company has a \$3,500,000 loan from Gresham Finance Limited. This is repayable by March 2017 and is accordingly classified as current borrowings. Gresham Finance is an affiliated company of Humphry Rolleston, a former director and a significant shareholder.

Subsequent to year-end the Company is going to raise \$7 million by way of a renounceable Rights Issue which is to be fully underwritten. At the time of preparing the financial statements the company was in the advance stages of finalising terms of an underwrite agreement with Asset Management Limited.

The \$3,500,000 loan from Gresham Finance Limited and the \$1,000,000 temporary overdraft will be repaid using proceeds from the Rights Issue.

With the banking facilities extended and the Rights Issue the Directors believe the going concern assumption is valid and have reached this conclusion having regard to the circumstances which they consider likely to affect the Group during the period of at least one year from the date these financial statements are approved. These circumstances include the positive earnings forecast for the 2017 financial year, along with the cash inflows from the capital raise.

In general, the Directors are confident that the factors above and an improved operating cashflow will support the business and accordingly the Directors believe that it continues to be appropriate to prepare financial statements on a going concern basis.

## 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), i.e. 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.

The Board provides a framework for overall risk management 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 covering specific areas such as exchange rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

The Group holds the following financial instruments:

|  | Cash / Loans<br>and receivables<br>\$000 | Financial<br>assets at fair<br>value through<br>profit and loss<br>\$000 | Financial<br>liabilities at<br>fair value<br>through profit<br>\$000 | Financial<br>liabilities held<br>at amortised<br>cost<br>\$000 |
|--|--|--|--|--|
| <b>Group 2016</b>                            |  |  |  |  |
| Cash and cash equivalents                    | 13                                       | -  | -  | -  |
| Trade and other receivables                  | 2,311                                    | -  | -  | -  |
| Receivable from associate and other debtors  | 856                                      | -  | -  | -  |
| Deferred consideration for sale of Interiors | 820                                      | -  | -  | -  |
| Trade and other payables                     | -  | -  | (20)   | (4,431)  |
| Borrowings and overdraft                     | -  | -  | -  | (10,539)   |
|  | 4,000                                    | -  | (20)   | (14,970)   |
| <b>Group 2015</b>                            |  |  |  |  |
| Cash and cash equivalents                    | 157                                      | -  | -  | -  |
| Trade and other receivables                  | 8,679                                    | -  | -  | -  |
| Receivable from associate and other debtors  | 1,150                                    | -  | -  | -  |
| Trade and other payables                     | -  | -  | -  | (9,135)  |
| Borrowings and overdraft                     | -  | -  | -  | (11,082)   |
|  | 9,986                                    | -  | -  | (20,217)   |

## (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 use foreign exchange currency contracts to manage these exposures. As at 30 June 2016 the Group had forward exchange contracts in place to sell \$274,000 of Canadian dollars.

The following table shows the sensitivity of the Group'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 | +10% and \$000  |   | -10% and \$000                            |        |
|---------------|---|---|---|--------|
|               | Foreign<br>currency<br>amount assets<br>(liabilities) | Post tax Profit<br>Increase<br>(decrease) | Post tax Profit<br>Increase<br>(decrease) | Equity |
| 30 June 2016  | 551   | (55)                                      | 55  | 55     |
| 30 June 2015  | 1,596   | (149)                                     | 149                                       | 149    |

### Concentrations of foreign currency exposure

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

|                          | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--------------------------|-----------------------|-----------------------|
| <b>Cash</b>              |                       |                       |
| Australian dollar        | 3                     | 27                    |
| <b>Trade receivables</b> |                       |                       |
| Australian dollar        | 347                   | 1,227                 |
| United States dollar     | 317                   | 964                   |
| Canadian dollar          | 287                   | 414                   |
| Euro                     | -                     | 37                    |
| <b>Trade payables</b>    |                       |                       |
| Australian dollar        | (319)                 | (602)                 |
| United States dollar     | (20)                  | (337)                 |
| Euro                     | (14)                  | (26)                  |
| <b>Loan</b>              |                       |                       |
| Australian dollar        | (50)                  | (108)                 |
|                          | 551                   | 1,596                 |

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## (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.

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 (2015: Nil).

The following table shows the sensitivity of the Group'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 \$6,194,000 (2015: \$10,992,000).

| Group                 | \$'000          | +1 pp and \$'000 |             | -1 pp and \$'000 |           |
|-----------------------|-----------------|------------------|-------------|------------------|-----------|
|                       | Carrying amount | Post tax profit  | Equity      | Post tax profit  | Equity    |
| Financial liabilities |                 |                  |             |                  |           |
| <b>30 June 2016</b>   | <b>6,194</b>    | <b>(43)</b>      | <b>(43)</b> | <b>43</b>        | <b>43</b> |
| 30 June 2015          | 10,992          | (77)             | (77)        | 77               | 77        |

## (b) Credit risk

In its normal course of business the Group is subject to, and manages its exposure, to credit risk from trade debtors and transactions with financial institutions. The Group manages its exposure to this credit risk. 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, along with guarantees in note 25.

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

At 30 June 2016 the Group had no exposure to any significant debtor greater than 10% of net equity (2015: one debtor of \$1,327,000).

## (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. This is considered further in Note 3.



# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

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

- BNZ Bank Loans whereby \$5,449,000 (2015: \$Nil) are due between one and five years (including interest). See Note 19.
- Hire purchase agreements whereby \$Nil (2015: \$90,000) are due between one and five years (including interest).

Contingent liabilities disclosed in note 25 amount to \$1,048,000 (2015: \$3,076,000). If these amounts become payable, the liabilities would 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.

|                          | Effective interest rate | Balance at 30 June | Less than one year \$'000 | Between one and two years \$'000 | Between two and five years \$'000 | Total cashflow \$'000 |
|--------------------------|-------------------------|--------------------|---------------------------|----------------------------------|-----------------------------------|-----------------------|
| <b>30 June 2016</b>      |                         |                    |                           |                                  |                                   |                       |
| Bank loans & Overdrafts  | 4.90%                   | 5,991              | 569                       | 3,716                            | 2,250                             | 6,535                 |
| Other loans              | 12%                     | 3,703              | 4,147                     | -                                | -                                 | 4,147                 |
| Hire purchase loans      | 7.60%                   | 95                 | 102                       | -                                | -                                 | 102                   |
| Trade and other payables |                         | 5,069              | 5,069                     | -                                | -                                 | 5,069                 |
| Gresham Finance Payable  | 13.10%                  | 750                | 450                       | 450                              | -                                 | 900                   |
| <b>Total</b>             |                         | <b>15,608</b>      | <b>10,337</b>             | <b>4,166</b>                     | <b>2,250</b>                      | <b>16,754</b>         |
| <b>30 June 2015</b>      |                         |                    |                           |                                  |                                   |                       |
| Bank loans & Overdrafts  | 5.80%                   | 10,599             | 11,214                    | -                                | -                                 | 11,214                |
| Other loans              |                         | 304                | 304                       | -                                | -                                 | 304                   |
| Hire purchase loans      | 8.60%                   | 179                | 97                        | 106                              | -                                 | 203                   |
| Trade and other payables |                         | 9,135              | 9,135                     | -                                | -                                 | 9,135                 |
| <b>Total</b>             |                         | <b>20,217</b>      | <b>20,749</b>             | <b>106</b>                       | <b>-</b>                          | <b>20,856</b>         |

The group was not subject to banking covenants at 30 June 2016.

## (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.

|                     | 30 June 2016 \$'000 | 30 June \$'000 |
|---------------------|---------------------|----------------|
| Equity \$'000       | 8,337               | 14,610         |
| Total assets \$'000 | 24,747              | 35,997         |
| Equity Ratio        | 33.7%               | 40.6%          |

## (e) Fair value hierarchy

The fair value of trade receivables, trade payables, cash and cash equivalents and borrowings are determined to be equivalent to their carrying value.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 5. Segment information

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

**Stainless Fabrication:** The division includes the fabrication workshops in Christchurch and New Plymouth operated by Mercer Stainless Limited. The division designs and supplies food processing and packaging equipment including Titan Slicers, Aico and Beta range. It also undertakes fabrication predominantly for the dairy sector. Each location is an operating segment which is aggregated for reporting purposes due to similar economic characteristics.

**Mercer Technologies:** The division holds the S-clave technology which the group is commercialising.

**Mercer Interiors:** The division was discontinued during the 2016 financial year.

**Mercer Medical:** The division was discontinued during the 2016 financial year.

**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.

Segment information in this note does not include any amounts for the discontinued operations.

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

|   | 30 June 2016                                       |                            |                   | 30 June 2015 - Restated                            |                               |                   |
|---|--|----------------------------|-------------------|--|-------------------------------|-------------------|
|   | Total sales<br>of goods and<br>contract<br>revenue | Segment result<br>(EBITDA) | Segment<br>assets | Total sales<br>of goods and<br>contract<br>revenue | Segment<br>result<br>(EBITDA) | Segment<br>assets |
|   | \$000  | \$000                      | \$000             | \$000  | \$000                         | \$000             |
| Stainless Fabrication   | 24,548   | (2,204)                    | 3,326             | 29,842   | 2,141                         | 9,172             |
| Titan Slicer  | 2,820  | (1,351)                    | 5,694             | 4,081  | (1,307)                       | 6,039             |
| Mercer Technologies   | 71   | (64)                       | 2,167             | 69   | (70)                          | 2,525             |
| Corporate   | -  | 455                        | 13,560            | -  | (1,274)                       | 11,634            |
| Intersegment eliminations   | (4,131)  | -                          | -                 | (1,768)  | -                             | -                 |
| <b>Total sales, EBITDA, assets</b>  | <b>23,308</b>                                      | <b>(3,164)</b>             | <b>24,746</b>     | <b>32,224</b>                                      | <b>(510)</b>                  | <b>29,370</b>     |
| Depreciation and amortisation   |  | (614)                      |                   |  | (637)                         |                   |
| Impairment of intangible assets   |  | -                          |                   |  | (231)                         |                   |
| Finance costs   |  | (801)                      |                   |  | (599)                         |                   |
| Income tax credit (charge)  |  | (573)                      |                   |  | 422                           |                   |
| Share of profits (losses) of associate  |  | -                          |                   |  | 16                            |                   |
| <b>Total Group sales, profit or loss after tax for continuing operations and assets</b> | <b>23,308</b>                                      | <b>(5,152)</b>             | <b>24,746</b>     | <b>32,224</b>                                      | <b>(1,539)</b>                | <b>29,370</b>     |

One Stainless Fabrication customer contributed \$2,157,000 (2015: \$2,134,000) of revenue in the year ended 30 June 2016. Another contributed \$2,109,000 (2015: \$1,844,000) of revenue in the year ended 30 June 2016. 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. The intersegment eliminations are predominately sales between Stainless Fabrication and Titan Slicer.

The total for segment assets excludes amounts relating to discontinued operations - \$nil as at 30 June 2016 (2015: \$6,627,000)

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

Depreciation and amortisation analysed by segment was:

|                       | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|-----------------------|-----------------------|-----------------------|
| Stainless Fabrication | 397                   | 320                   |
| Titan Slicer          | 54                    | 61                    |
| Mercer Technologies   | 49                    | 47                    |
| Corporate             | 114                   | 210                   |
| <b>Total</b>          | <b>614</b>            | <b>638</b>            |

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

|                       | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|-----------------------|-----------------------|-----------------------|
| Stainless Fabrication | 1,129                 | 1,197                 |
| Titan Slicer          | 1,843                 | 1,547                 |
| Mercer Technologies   | 1,828                 | 2,480                 |
| Corporate             | 7,756                 | 6,653                 |
| <b>Total</b>          | <b>12,556</b>         | <b>11,877</b>         |

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

Excludes an amount of \$Nil for discontinued operations (2015: \$1,494,000).

|              | 30 June 2016<br>\$000 | 30 June 2015<br>\$000<br>Restated |
|--------------|-----------------------|-----------------------------------|
| New Zealand  | 12,556                | 11,821                            |
| Australia    | -                     | 56                                |
| <b>Total</b> | <b>12,556</b>         | <b>11,877</b>                     |

## 6. Sales of goods and contract revenue

|                               | 30 June 2016<br>\$000 | 30 June 2015<br>\$000<br>Restated |
|-------------------------------|-----------------------|-----------------------------------|
| Sales of goods                | 302                   | 213                               |
| Construction contract revenue | 23,006                | 32,011                            |
| <b>Total</b>                  | <b>23,308</b>         | <b>32,224</b>                     |

## 7. Other Income

|                     | 30 June 2016<br>\$000 | 30 June 2015<br>\$000<br>Restated |
|---------------------|-----------------------|-----------------------------------|
| Grant               | -                     | 59                                |
| Insurance proceeds* | 2,608                 | -                                 |
| Other               | 188                   | 153                               |
| <b>Total</b>        | <b>2,796</b>          | <b>212</b>                        |

\*Income of \$2,608,000 was received by the Group for the settlement of an insurance claim in relation to earthquake damage to the 53 Lunns Road property (2015: \$Nil).

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 8. Other Expenses

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

|   |      | 30 June 2016 | Restated<br>30 June 2015 |
|---|------|--------------|--------------------------|
|   | note | \$000        | \$000                    |
| Foreign exchange losses                   |      | 35           | 51                       |
| Advertising                               |      | 48           | 251                      |
| Movement in doubtful debts provision      | 12   | 502          | 169                      |
| Communication costs                       |      | 175          | 225                      |
| Postage, printing and stationery          |      | 78           | 99                       |
| Bank charges                              |      | 257          | 147                      |
| Electricity costs                         |      | 146          | 183                      |
| Employee on-costs                         |      |              |                          |
| Superannuation                            |      | 254          | 300                      |
| Accident credit compensation premiums     |      | 70           | 210                      |
| Insurance                                 |      | 248          | 242                      |
| Vehicle expenses                          |      | 149          | 152                      |
| Directors fees                            | 27   | 144          | 199                      |
| Consultancy fees                          |      | 148          | 138                      |
| Legal                                     |      | 180          | 83                       |
| Repairs and maintenance                   |      | 685          | 685                      |
| Recruitment                               |      | 28           | 195                      |
| Research and development                  |      | 52           | 1                        |
| Share-based payment expense               |      | 100          | 28                       |
| Subcontractors                            |      | 36           | 219                      |
| Travel and accommodation                  |      | 479          | 532                      |
| Entertainment                             |      | 43           | 57                       |
| Fees paid to Auditors (Deloitte)          |      |              |                          |
| Audit of financial statements             |      | 85           | 72                       |
| Forensic services                         |      | -            | 9                        |
| Other expenses                            |      | 609          | 360                      |
| Other expenses from continuing operations |      | 4,551        | 4,607                    |

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 9. Salaries and wages

Salaries and wages exclude the following amounts that have been recovered into labour for internally generated development assets \$647,000 (2015: \$559,000).

## 10. Income tax

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000<br>Restated |
|--|-----------------------|-----------------------------------|
| <b>(a) Income tax (credit) charge</b>  |                       |                                   |
| Current tax  | -                     | -                                 |
| Deferred tax (note 16)   | 573                   | (1,506)                           |
| <b>Total</b>   | <b>573</b>            | <b>(1,506)</b>                    |
| <b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b> |                       |                                   |
| <b>Deficit before tax expense for continuing operations</b>                          | <b>(4,579)</b>        | <b>(1,961)</b>                    |
| Tax at the New Zealand rate of 28%   | (1,282)               | (549)                             |
| Prior year tax adjustment  | -                     | (51)                              |
| Expenditure not deductible for tax   | 106                   | 14                                |
| Current year tax losses in Australia not recognised                                  | 303                   | 164                               |
| Current year tax losses in New Zealand not recognised                                | 1,425                 | -                                 |
| Other  | 22                    | -                                 |
| <b>Income tax (credit) charge</b>  | <b>573</b>            | <b>(422)</b>                      |
| Deficit on discontinued operations   | (1,576)               | (6,570)                           |
| Tax at the New Zealand rate of 28%   | (441)                 | (1,840)                           |
| Expenditure not deductible for tax   | -                     | 756                               |
| Tax losses on discontinued operations  | (441)                 | (1,084)                           |
| Tax losses and other temporary differences not recognised                            | 441                   | -                                 |
| <b>Total Income tax (credit) charge</b>  | <b>573</b>            | <b>(1,506)</b>                    |

## (c) Tax Losses

Tax losses are recognised only if it is probable that future taxable amounts will be available to utilise the losses. The carry forward losses recognised as a deferred tax asset in New Zealand are subject to shareholder continuity requirement.

At 30 June 2016 there were \$11,880,000 (2015: \$10,799,000) of unrecognised Australian tax losses, representing a tax benefit of \$3,564,000 (2015: \$3,229,000).

At 30 June 2016 there were \$6,665,000 (2015: Nil) of unrecognised New Zealand tax losses, representing a tax benefit of \$1,866,000 (2015: Nil).

## (d) Imputation credit account

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-----------------------|-----------------------|
| Credits available to shareholders of the company | -                     | -                     |



# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 11. Cash and bank balances

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-----------------------|-----------------------|
| Cash at bank and in hand                           | 13                    | 157                   |
| Total cash and bank balances                       | 13                    | 157                   |
| Less bank overdrafts                               | (492)                 | (2,785)               |
| Cash and cash equivalents per cash flow statements | (479)                 | (2,628)               |

### 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

|   | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|---|-----------------------|-----------------------|
| <b>Current</b>                          |                       |                       |
| Trade receivables                       | 2,796                 | 8,930                 |
| Less provision for doubtful receivables | (485)                 | (251)                 |
| Total accounts receivables              | 2,311                 | 8,679                 |
| Impairment provision                    |                       |                       |
| Provision for doubtful debts at 1 July  | (251)                 | (209)                 |
| Increase in provision                   | (502)                 | (169)                 |
| Bad debts written off                   | 268                   | 127                   |
| Provision for doubtful debts at 30 June | (485)                 | (251)                 |
| Past due and impaired receivables       |                       |                       |
| 1 to 3 months                           | -                     | -                     |
| Over 3 months                           | 485                   | 251                   |
|   | 485                   | 251                   |
| Past due but not impaired receivables   |                       |                       |
| 1 to 3 months                           | 2,257                 | 2,525                 |
| Over 3 months                           | -                     | 573                   |
|   | 2,257                 | 3,098                 |

Management considers that receivables past due, but not impaired, are fully collectible in the ordinary course of business.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

|  |    | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|----|-----------------------|-----------------------|
| <b>Current</b>                               |    |                       |                       |
| <b>Other debtors and prepayments</b>         |    |                       |                       |
| Total other debtors                          |    | 215                   | 629                   |
| Deferred consideration for sale of Interiors | 29 | 450                   | -                     |
| Receivables from Associate                   | 27 | 114                   | 120                   |
| Prepayments                                  |    | 89                    | 378                   |
| Total  |    | 868                   | 1,127                 |
| <b>Long term</b>                             |    |                       |                       |
| <b>Other debtors and prepayments</b>         |    |                       |                       |
| Receivables from Associate                   | 27 | 527                   | 401                   |
| Deferred consideration for sale of Interiors | 29 | 370                   | -                     |
| Prepayments                                  |    | 314                   | 338                   |
| Total  |    | 1,211                 | 739                   |

Included in long term other debtors and prepayments are \$213,000 (2015: \$238,000) of prepayments which fall due 5 years after balance date.

## 13. Inventories

|  |  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|--|-----------------------|-----------------------|
| <b>Construction contracts</b>  |  |                       |                       |
| Total aggregate costs incurred and recognised profits (less recognised losses) to date |  | 335                   | 3,912                 |
| Less: progressive billings   |  | (715)                 | (1,710)               |
| Net work in progress for ongoing contracts   |  | (380)                 | 2,202                 |
| Raw materials and components   |  | 1,195                 | 1,413                 |
| Finished goods   |  | 3,430                 | 3,720                 |
| <b>Total inventories</b>   |  | 4,245                 | 7,335                 |

The provision relating to inventories which have been written down to estimated net realisable value amounted to \$99,000 (2015: \$1,716,000).

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 14. Property, plant and equipment

| Group                          | Freehold<br>land<br>\$000 | Buildings<br>\$000 | Plant and<br>equipment<br>\$000 | Total<br>\$000  |
|--------------------------------|---------------------------|--------------------|---------------------------------|-----------------|
| <b>At 1 July 2014</b>          |                           |                    |                                 |                 |
| Cost/Valuation                 | 2,149                     | 3,543              | 15,825                          | <b>21,517</b>   |
| Accumulated depreciation       | -                         | (86)               | (11,640)                        | <b>(11,726)</b> |
| Net book value                 | <b>2,149</b>              | <b>3,457</b>       | <b>4,185</b>                    | <b>9,791</b>    |
| <b>Year ended 30 June 2015</b> |                           |                    |                                 |                 |
| Opening net book value         | 2,149                     | 3,457              | 4,185                           | <b>9,791</b>    |
| Additions                      | -                         | 65                 | 655                             | <b>720</b>      |
| Impairment                     | -                         | -                  | (984)                           | <b>(984)</b>    |
| Depreciation                   | -                         | (110)              | (802)                           | <b>(912)</b>    |
| Disposals                      | -                         | -                  | -                               | <b>-</b>        |
| Closing net book value         | <b>2,149</b>              | <b>3,412</b>       | <b>3,054</b>                    | <b>8,615</b>    |
| <b>At 30 June 2015</b>         |                           |                    |                                 |                 |
| Cost/Valuation                 | 2,149                     | 3,709              | 16,480                          | <b>22,338</b>   |
| Impairment                     | -                         | -                  | (984)                           | <b>(984)</b>    |
| Accumulated depreciation       | -                         | (297)              | (12,442)                        | <b>(12,739)</b> |
| Net book value                 | <b>2,149</b>              | <b>3,412</b>       | <b>3,054</b>                    | <b>8,615</b>    |
| <b>Year ended 30 June 2016</b> |                           |                    |                                 |                 |
| Opening net book value         | 2,149                     | 3,412              | 3,054                           | <b>8,615</b>    |
| Additions                      | -                         | 8                  | 324                             | <b>332</b>      |
| Revaluation                    | 505                       | (448)              | -                               | <b>57</b>       |
| Depreciation                   | -                         | (109)              | (639)                           | <b>(747)</b>    |
| Disposals                      | -                         | (26)               | (1,449)                         | <b>(1,475)</b>  |
| Closing net book value         | <b>2,654</b>              | <b>2,837</b>       | <b>1,291</b>                    | <b>6,782</b>    |
| <b>At 30 June 2016</b>         |                           |                    |                                 |                 |
| Cost/Valuation                 | 2,654                     | 2,837              | 8,731                           | <b>14,222</b>   |
| Accumulated depreciation       | -                         | -                  | (7,441)                         | <b>(7,441)</b>  |
| Net book value                 | <b>2,654</b>              | <b>2,837</b>       | <b>1,291</b>                    | <b>6,781</b>    |

Land and buildings at 53 Lunns Road, Christchurch was revalued to \$4,250,000, less \$857,000 worth of estimate earthquake repair costs on 30 June 2016. Land and buildings at Corbett Rd, Bell Block was revalued to \$2,100,000 on 30 June 2016. The values were determined by independent registered valuers, CBRE (Christchurch) 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 30 June 2016 are consistent with the valuation methodologies used in the last valuation in September 2013.

### 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 Group Financial Statements cont.

For the year ended 30 June 2016

The table below summarises the valuation approach and the principle assumptions used in establishing the fair values in 2016:

| Asset classification<br>description and valuation<br>approach | Valuer               | Fair value at 30<br>June 2016<br>\$000 | Inputs used to<br>measure fair<br>value | Range of<br>significant<br>unobservable<br>inputs | Weighted<br>average |
|---|----------------------|--|---|---|---------------------|
| <b>Land</b>   |                      |  |   |   |                     |
| Income  | Telfer Young<br>CBRE | 2,654                                  | Rental Growth                           | 2.00%   |                     |
| capitalisation approach and<br>discounted cashflow approach   |                      |  | Discount rate                           | 11.10%  | 11.10%              |
|   |                      |  | Terminal Yield                          | 7.50% -9.00%                                      | 8.27%               |
|   |                      |  | Net market<br>income per m2             | \$50-\$122  | \$86                |
|   |                      |  | Capitalisation rate                     | 7.00% - 9.75%                                     | 8.27%               |
| <b>Buildings</b>  |                      |  |   |   |                     |
| Income  | Telfer Young<br>CBRE | 2,837*                                 | Rental Growth                           | 2.00%   |                     |
| capitalisation approach and<br>discounted cashflow approach   |                      |  | Discount rate                           | 11.10%  | 11.10%              |
|   |                      |  | Terminal Yield                          | 7.50% -9.00%                                      | 8.27%               |
|   |                      |  | Net market<br>income per m2             | \$50-\$122  | \$86                |
|   |                      |  | Capitalisation rate                     | 7.00% - 9.75%                                     | 8.27%               |
|   |                      |  | Earthquake repair<br>costs              | \$ 857,000  | \$ 837,000          |

\*Includes a deduction of \$857,000 for costs to repair earthquake damage.

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

Fair value measurement sensitivity to  
significant unobservable inputs:

| Unobservable inputs within the discounted cashflow analysis                    |   | Increase in<br>input | Decrease in<br>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             |
| Unobservable inputs within the capitalisation and discounted cashflow approach |   |                      |                      |
| Earthquake repair costs  | Specialist estimate of earthquake repair  | Decrease             | Increase             |

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

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 2016<br>\$000 | 30 June 2015<br>\$000 |
|--------------------------|-----------------------|-----------------------|
| Cost                     | 3,026                 | 3,018                 |
| Accumulated depreciation | (989)                 | (898)                 |
| Net book value           | 2,037                 | 2,120                 |

## 15. Intangible assets

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-----------------------|-----------------------|
| <b>Goodwill</b>                                  |                       |                       |
| Cost   | 1,024                 | 6,337                 |
| Impairment                                       | -                     | (5,313)               |
| Net book value                                   | 1,024                 | 1,024                 |
| Opening balance                                  | 1,024                 | 3,723                 |
| Impairment                                       | -                     | (2,699)               |
| Closing balance                                  | 1,024                 | 1,024                 |
| <b>Acquired patents, trademarks and licences</b> |                       |                       |
| Cost   | 567                   | 567                   |
| Accumulated amortisation and impairment charges  | (278)                 | (255)                 |
| Net book value                                   | 289                   | 312                   |
| Opening balance                                  | 312                   | 243                   |
| Additions  | -                     | 91                    |
| Amortisation                                     | (23)                  | (22)                  |
| Closing balance                                  | 289                   | 312                   |
| <b>Intellectual property</b>                     |                       |                       |
| Cost *   | 3,469                 | 2,742                 |
| Accumulated amortisation and impairment charges  | (234)                 | (77)                  |
| Net book value                                   | 3,235                 | 2,665                 |
| Opening balance                                  | 2,665                 | 2,417                 |
| Additions  | 727                   | 890                   |
| Impairment                                       | -                     | (581)                 |
| Disposals  | (112)                 | -                     |
| Amortisation                                     | (45)                  | (61)                  |
| Closing balance                                  | 3,235                 | 2,665                 |
| <b>Total intangible assets</b>                   | <b>4,548</b>          | <b>4,001</b>          |

\*\$3,200,000 relates to the S-Clave project (2015: \$3,018,000)



# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

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 unimpaired goodwill allocation is presented below.

|              | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--------------|-----------------------|-----------------------|
| Titan Slicer | 1,024                 | 1,024                 |
| Total        | 1,024                 | 1,024                 |

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 Titan Slicer relates to the acquisition and subsequent integration of Titan Slicer Limited in July 2012.

Goodwill has been tested for impairment in June 2016. 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 average growth in revenues used in the impairment calculation for Titan Slicer is 40% (2015: 37%). The terminal growth rate used was 2% (2015: 2%) and the cash flows were discounted at a discount rate of 13% (2015: 13%). The valuation models used are most sensitive to changes in the terminal year earnings and cash flows. The goodwill would start to be impaired if the revenue growth rate was less than 17% (2015: 7%); or the discount rate would have to be greater than 23% (2015: 24%).

## 16. Deferred tax asset

|                                     | Buildings<br>\$000 | Other<br>Temporary<br>Differences<br>\$000 | Tax Losses<br>\$000 | Total<br>\$000 |
|-------------------------------------|--------------------|--|---------------------|----------------|
| Balance at 1 July 2014              | (989)              | 986  | 3,825               | 3,822          |
| Amounts credited to profit and loss | -                  | 822  | 684                 | 1,506          |
| Balance at 30 June 2015             | (989)              | 1,808                                      | 4,509               | 5,328          |
| Balance at 1 July 2015              | (989)              | 1,808                                      | 4,509               | 5,328          |
| Amounts debited to profit and loss  | 700                | (1,063)                                    | (210)               | (573)          |
| Balance at 30 June 2016             | (289)              | 744  | 4,299               | 4,754          |

Other Temporary Differences arise from provisions for working capital and plant and equipment. \$848,423 (2015: \$943,000) 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.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 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      | 2016<br>% ownership | 2015<br>% ownership |
|---------------------------------|---|---------------|---------------------|---------------------|
| <b>Subsidiaries</b>             |   |               |                     |                     |
| 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     | Non-trading subsidiary, formerly a distributor of kitchen products  | Australia     | 100%                | 100%                |
| Mercer Technologies Pty Limited | Non-trading subsidiary, formerly a supplier of stainless steel products   | Australia     | 100%                | 100%                |
| Mercer Stainless Pty Limited    | Non-trading subsidiary, formerly a stainless steel fabricator and equipment manufacturer  | 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%                | 100%                |
| Kuaka Holdings Limited          | Non-trading holding company of Mercer Stainless Pty Limited   | New Zealand   | 100%                | 100%                |
| Mercer North America Limited    | Non-trading stainless steel equipment sales and service   | United States | 100%                | 100%                |
| Titan Slicer Limited            | Specialised food cutting equipment sales and service  | New Zealand   | 100%                | 75%                 |
| Mermed Limited                  | Formerly holds Intellectual Property - now sold as part of discontinued operations  | New Zealand   | Nil                 | 75%                 |
| <b>Associate</b>                |   |               |                     |                     |
| Stainless Alliance Group Ltd    | Funds a Trade NZ person for sourcing leads in Australia.  | New Zealand   | 25%                 | 25%                 |
| Titan Design Limited            | Intellectual Property company   | New Zealand   | 25%                 | 25%                 |

### Investment in associate

Titan Design Limited was established on 3 July 2012. The Group has a 25% investment in Titan Design Limited and has been accounted for as an Associate: the share of profits from the associate was \$Nil (2015: \$16,000) recognised in the profit or loss.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## Acquisitions

The 25% non-controlling interest of Titan Slicer Limited was acquired in December 2015 for \$1.

## 18. Trade and other payables

|                               | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|-------------------------------|-----------------------|-----------------------|
| Trade creditors               | 3,735                 | 6,935                 |
| Sundry creditors and accruals | 716                   | 2,200                 |
| Restructure Provision         | 618                   | -                     |
| Total creditors and accruals  | 5,069                 | 9,135                 |

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

Following the sale of the Interiors and Medical divisions the company is undergoing further restructuring of the remaining divisions which will result in the centralisation of services to Christchurch, the closure of the Nelson office, the moving of the Auckland office and the reduction in headcount of New Plymouth. A restructure provision of \$618,000 has been created to cover these costs, which includes a provision of \$30,000 for onerous lease contracts. The provision for restructuring reflects the expected cost of employee redundancy payment, based on the estimated contractual obligation for each employee affected. The employee redundancy is expected to be fully utilised within the next 12 months.

## 19. Borrowings

|                                      | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--------------------------------------|-----------------------|-----------------------|
| Bank loans                           | 5,499                 | 7,814                 |
| Related party loan (Gresham Finance) | 3,500                 | -                     |
| Gresham financing arrangement        | 750                   | -                     |
| Other Loans                          | 203                   | 304                   |
| Hire purchase loans                  | 95                    | 179                   |
| Total borrowings                     | 10,047                | 8,297                 |
| Contractual maturity                 |                       |                       |
| Within one year                      | 4,200                 | 8,207                 |
| Later than one year                  | 5,847                 | 90                    |
|                                      | 10,047                | 8,297                 |

A loan agreement is in place for \$3,500,000, repayable in March 2017 at an interest rate of 12%, with Gresham Finance Ltd a company owned by Director HJD Rolleston. There is a financial arrangement with Gresham Finance for \$750,000 which relates to the deferred consideration from the sale of interiors (refer to note 29 for more details).

The other loans balance includes a loan agreement is in place with Monument Finance for a loan of a machine. This loan held an interest rate of 4.63% and is being repaid at \$13,000 per month.

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 comprised of the following:

- A committed cash advance facility of \$3,500,000, maturing 31 October 2017;
- A loans facility of \$1,948,000 with irregular repayments of \$26,000 per month falling due from June 2016, maturing 17th June 2019;
- A loans facility of \$50,000 with repayments of \$4,000 per month falling due from June 2016; and
- An overdraft facility of \$1,000,000

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

The total facility including overdraft is \$6,500,000 at 30 June 2016 (2015: \$10,813,000). Interest on the committed cash advance facility is 4.27% - 4.47% (2015: 5.4%) and the interest rate on the loan is 5.5% (2015: 6.4%). The overdraft facility at 30 June 2016 of \$1,000,000 (2015: \$3,000,000) was drawn down to the amount of \$492,000 (2015: \$2,785,000). The committed cash advance facility was fully drawn at 30 June 2016 (2015: fully drawn). There is a line fee of 1% on the committed cash advance facility.

## Hire purchase loans

Non-bank hire purchase loans have fixed interest charged at 7.6% (2015: 8.6%).

|                                   | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|-----------------------------------|-----------------------|-----------------------|
| Less than one year                | 98                    | 76                    |
| Between two and five years        | -                     | 119                   |
| Total minimum lease payments      | 98                    | 195                   |
| Less: future interest             | (3)                   | (16)                  |
| Present value of future liability | 95                    | 179                   |

## 20. Share Capital

| Group                            | Shares                      |                             | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|----------------------------------|-----------------------------|-----------------------------|-----------------------|-----------------------|
|                                  | 30 June 2016<br># of shares | 30 June 2015<br># of shares |                       |                       |
| Issued and fully paid up capital | 311,970,446                 | 311,970,446                 | 33,475                | 33,475                |
| Balance at beginning of the year | 311,970,446                 | 294,321,349                 | 33,475                | 32,146                |
| Shares issued during the year    | -                           | 17,649,097                  | -                     | 1,329                 |
| Balance at the end of the year   | 311,970,446                 | 311,970,446                 | 33,475                | 33,475                |

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

In December 2014, Mr R Shepherd exercised 11,764,706 share options which raised \$1,000,000 and Mr T Blathwayt exercised 2,941,176 share options which raised \$250,000.

Mr R Shepherd was also entitled to 1% of the shares after the AGM on the first, second and third anniversary of his appointment and in 2015, after the third anniversary of his appointment, Mr R Shepherd was issued 2,943,214 shares.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 21. Retained earnings and other reserves

|   | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|---|-----------------------|-----------------------|
| <b>Foreign currency translation reserve</b>                     |                       |                       |
| Balance at beginning of the year                                | (298)                 | (206)                 |
| Net exchange difference on translation of overseas subsidiaries | (69)                  | (92)                  |
| Reversal of FCTR on divestment of Australian operations         | 367                   | -                     |
| Balance at the end of the year                                  | -                     | (298)                 |
| <b>Share based payment reserves</b>                             |                       |                       |
| Balance at beginning of year                                    | 10                    | 88                    |
| Value of employee services                                      | 100                   | 28                    |
| Transfers to share capital                                      | -                     | (106)                 |
| Balance at the end of the year                                  | 110                   | 10                    |
| <b>Asset revaluation reserve</b>                                |                       |                       |
| Balance at beginning of the year                                | 2,814                 | 2,814                 |
| Revaluation   | 57                    | -                     |
| Balance at the end of the year                                  | 2,871                 | 2,814                 |
| <b>Total other reserves</b>                                     | <b>2,981</b>          | <b>2,526</b>          |
| <b>Retained earnings</b>  |                       |                       |
| Balance at beginning of the year                                | (21,063)              | (14,345)              |
| Transfer from non-controlling interest                          | (589)                 | -                     |
| Deficit for the year  | (6,467)               | (6,718)               |
| Balance at end of the year                                      | (28,119)              | (21,063)              |

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. Due to the 25% non-controlling interest of Titan Slicer being acquired in the 2016 year the balance of the non-controlling interest has been transferred to the retained earnings balance.

## 22. Dividends

|   | 30 June 2016<br>Cents     | 30 June 2015<br>Cents |
|---|---------------------------|-----------------------|
|   | <b>Dividend per share</b> |                       |
| No dividend was paid or declared (2015: Nil). | -                         | -                     |



# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 23. Earnings per share

### Basic and diluted

Basic earnings per share are calculated by dividing the profit/(loss) attribute to equity holders of the Company by the weighted average number of ordinary shares in issue during 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 exercise of share options where the weighted average market price of ordinary shares during the period exceeds the exercise price of the option/warrant.

|   | 30 June 2016<br># of shares | 30 June 2015<br># of shares |
|---|-----------------------------|-----------------------------|
| Weighted average number of ordinary shares in issue:            |                             |                             |
| Basic   | 311,970,446                 | 304,507,878                 |
| Warrants  | -                           | -                           |
| Options   | 18,428,572                  | 7,605,042                   |
| Equity based remuneration                                       | -                           | 1,217,604                   |
| Total   | 330,399,018                 | 313,330,524                 |
| Deficit attributable to the shareholders of the Company (\$000) | (6,467)                     | (6,718)                     |
| <b>Basic earnings per share</b>                                 | <b>(2.07) cents</b>         | <b>(2.21) cents</b>         |
| <b>Diluted earnings per share</b>                               | <b>(2.07) cents</b>         | <b>(2.21) cents</b>         |

Given the deficit in 2015 and 2016 the instruments above are anti-dilutive. Accordingly the number of shares used in the diluted earnings per share calculation in 2015 is 304,507,878 and in 2016 is 311,970,446

## 24. Change in working capital

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

|   | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|---|-----------------------|-----------------------|
| Trade creditors and accruals                                | (4,419)               | 3,069                 |
| Trade debtors and prepayments                               | 6,155                 | (2,177)               |
| Inventories   | 3,090                 | (2,929)               |
| Total   | 4,826                 | (2,037)               |
| Less: working capital disposed with sale of business assets | (3,003)               | -                     |
| Add: deferred consideration for sale of business assets     | 820                   | -                     |
| Less: restructure provision                                 | (618)                 | -                     |
| Net movement in Statement of Cashflows                      | 2,025                 | (2,037)               |

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 25. Contingent liabilities

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-----------------------|-----------------------|
| Guarantee to bankers of bank overdraft facilities for subsidiaries to a limit of   | -                     | 215                   |
| Guarantee to bankers for credit card facilities up to a limit of   | 180                   | 204                   |
| Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise | 868                   | 2,657                 |
|  | <b>1,048</b>          | <b>3,076</b>          |

## 26. Commitments

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-----------------------|-----------------------|
| <b>Non-cancellable sublease receivables</b>  |                       |                       |
| Non-cancellable  |                       |                       |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows |                       |                       |
| Within one year  | 234                   | -                     |
| Later than one year but not later than five years  | 378                   | -                     |
| Later than five years  | -                     | -                     |
|  | <b>612</b>            | <b>-</b>              |

### Operating lease commitments

|   |            |              |
|---|------------|--------------|
| Non-cancellable   |            |              |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows |            |              |
| Within one year   | 380        | 637          |
| Later than one year but not later than five years   | 409        | 2,018        |
| Later than five years   | -          | 922          |
|   | <b>789</b> | <b>3,577</b> |

The Group leases premises and plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject 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.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 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: J F Dennehy, G Diack (resigned November 2015), R Shepherd (resigned August 2015), HJD Rolleston (resigned after balance date; see note 28), R Rookes and P Smart.

### (b) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2016 and the year ended 30 June 2015 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.

|                       | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|-----------------------|-----------------------|-----------------------|
| Short term benefits   | 1,371                 | 1,933                 |
| Long term benefits    | 20                    | 26                    |
| Equity based payments | 100                   | 28                    |
| Directors' fees       | 144                   | 181                   |
| Total                 | 1,635                 | 2,168                 |

### (c) Equity instruments

#### (i) Share options

In September 2015 Mr A Dowman, General Manager Technologies, was issued 1,785,714 options which are exercisable at \$0.14 per share on 31 December 2016. These options have expired on 30 June 2016.

In November 2015, Mr J Dennehy, Director and Board Chair, was issued options as follows:

- a) to subscribe for 4,000,000 ordinary shares in the capital of the Company at an exercise price of \$0.05 per share exercisable in August 2016; and
- b) to subscribe for 3,571,429 ordinary shares in the capital of the Company at an exercise price of \$0.07 per share exercisable in August 2017.

In November 2015, Mr R Rookes, CEO, was issued options as follows:

- a) to subscribe for 5,500,000 ordinary shares in the capital of the Company exercisable at \$0.05 per share exercisable in August 2017; and
- b) to subscribe for 5,357,143 ordinary shares in the capital of the Company at an exercise price of \$0.07 per share exercisable in August 2018.

#### (ii) Other 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 share price of 6.5c per share and risk free interest rate of 2.60%. For the share options volatility, was determined based on industry norms, of 30%. The total amount recognised in the profit or loss was \$100,000 (2015: \$28,000).

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.

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

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

|                 | 30 June 2016                                     |                | 30 June 2015                                     |                |
|-----------------|--|----------------|--|----------------|
|                 | Average exercise price in cents per share option | Options ('000) | Average exercise price in cents per share option | Options ('000) |
| At 1 July 2015  | 14.00  | 1,786          | 8.50   | 14,706         |
| Granted         | 5.00   | 9,500          | 14.00  | 1,786          |
| Granted         | 7.00   | 8,929          |  |                |
| Expired         | 14.00  | (1,786)        |  |                |
| Exercised       | -  | -              | 8.50   | (14,706)       |
| At 30 June 2016 | 5.97   | 18,429         | 14.00  | 1,786          |

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) |      |
|---------------|---------------------|--|---------------|------|
|               |                     |  | 2016          | 2015 |
| November 2015 | August 2016         | 5.00                                     | 4,000         | -    |
| November 2015 | August 2017         | 7.00                                     | 3,572         | -    |
| November 2015 | August 2017         | 5.00                                     | 5,500         | -    |
| November 2015 | August 2018         | 7.00                                     | 5,357         | -    |
|               |                     |  | 18,429        | -    |

The total assessed fair value of options issued in year was \$270,000; the expense recognised in the Statement of Comprehensive Income in relation to these options was \$100,000 (2015: \$28,000).

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

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-----------------------|-----------------------|
| <b>Associates</b>                                  |                       |                       |
| Advances owed from associates                      | 642                   | 521                   |
| Gresham Finance payable for deferred consideration | 750                   | -                     |
| Gresham Finance loan balance                       | 3,500                 | -                     |

## (e) Terms and conditions of related party transactions

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

The interest free loan to the associate is repayable by way of future royalty payments due from the sale of certain Titan Slicer equipment.

A \$750,000 payable is owed to Gresham Finance as part of a financing arrangement in which cash was received in advance for the deferred consideration for the sale of Interiors. This is unwound over a two year period. Refer to note 29 for more detail.

Mercer Group Limited has borrowed \$3,500,000 from Gresham Finance, repayable in October 2016. This loan incurs interest at 12%. During the year interest of \$128,000 was payable to Gresham Finance.

Gresham Finance is related to Mercer through Humphry Rolleston who is a former director and shareholder of Mercer and a director of Gresham Finance and is the ultimate shareholder of Gresham Finance.

The \$3,500,000 loan is repayable in March 2017.

The company has an informal lease agreement with McRaes Global Engineering Limited, the arrangement is for nil consideration, below market rent. Humphry Rolleston, a former Director with Mercer, in the current year is a Director and major shareholder of McRaes Global Engineering Limited

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 28. Subsequent Event

In July 2016, Humphry Rolleston resigned as a Director.

On the 22nd of July 2016 the Company negotiated an additional \$1,000,000 'Temporary Overdraft' which is to be used mainly for costs associated with restructuring. The Temporary Overdraft is to be paid back in full from the proceeds of the planned capital raise in October 2016.

Subsequent to year-end the Company is seeking to raise \$7 million by way of a renounceable Rights Issue which is to be fully underwritten. At the time of preparing the financial statements the party to the underwrite is Asset Management Limited which is an affiliated Company of Humphry Rolleston. The Company is also seeking and open to co-underwriters.

The Company is seeking to raise capital such that shareholder continuity is maintained so that tax losses carried forward may be utilised and offset against future taxable profits. However there is a risk that the impact of the underwrite agreement will be that Mr Rolleston interests increase such that the shareholder continuity requirements of the tax legislation are breached. This scenario would result in some or all of the tax losses included as part of the deferred tax asset being forfeited and written off.

## 29. Discontinued Operations

The combined results of the discontinued operations (i.e. Medical and Interiors) included in the profit for the year are set out below. The comparative profit and loss from discontinued operations have been represented to include those operations classified as discontinued in the current year.

|  | 30 June 2016<br>\$000 | 30 June 2015<br>\$000 |
|--|-----------------------|-----------------------|
| Revenue  | 4,764                 | 11,146                |
| Expenses   | (5,990)               | (17,716)              |
| Loss before tax  | (1,226)               | (6,570)               |
| Attributable income tax (expense)/ credit  | -                     | 1,084                 |
| Net profit/(loss) after tax  | (1,226)               | (5,486)               |
| Gain/(Loss) on disposal of operations  | (350)                 | -                     |
| Profit/(Loss) for the year from discontinued operations (attributable to owners of the Parent) | (1,576)               | (5,486)               |
| <b>Reconciliation of sale proceeds of discontinued operations</b>                              |                       |                       |
| Sales proceeds   | 3,973                 | -                     |
| Less: assets disposed  |                       |                       |
| Inventory  | 3,003                 | -                     |
| Property plant and equipment   | 1,320                 | -                     |
| Loss on sale   | (350)                 | -                     |
| Proceeds represented by:   |                       |                       |
| Cash Received  | 3,153                 | -                     |
| Deferred consideration   | 820                   | -                     |
| Total Proceeds   | 3,973                 | -                     |

# Notes to the Group Financial Statements cont.

For the year ended 30 June 2016

## 29. Discontinued Operations Continued

### Disposal of Interiors business

On the 22nd of December 2015, the Company entered into a sale agreement of its Interiors business, which manufactured and sold laminate and stainless benchtops to retail and wholesale customers. The proceeds of the sale were less than the carrying amount of the related net assets, accordingly losses of \$756,000 have been recognised as at 30th June 2016.

The decision to sell the Interiors business is consistent with the Group's long term strategy of focusing on the manufacture of food technology solutions utilising its IP in this area. The disposal was completed on the 6th of February 2016.

The deferred consideration associated with this disposal of \$900,000 has been recorded as a receivable at the discounted amount of \$820,000, reflecting that this amount is receivable over a two year period and is interest free.

The Group has received \$750,000 from Gresham Finance (a related party) to fund this deferred consideration receivable. The \$750,000 cash received is at a discount to the \$900,000 consideration, which gives an implied interest rate of 13.1%. This funding has been received on a full recourse basis, on which no additional interest is charged on the basis that deferred consideration is received by Gresham on time.

### Disposal of Medical business

On the 6th of October 2015, the Company completed a sale transaction of its Medical business, which supplied equipment and related products and services for sterilisation, washing and disinfection. The proceeds of the sale were more than the carrying amount of the related net assets, accordingly a gain of \$406,000 was recognised as at 30th June 2016.

The decision to sell the Medical business is consistent with the Group's long term strategy of focusing on the manufacture of food technology solutions utilising its IP in this area.



# Auditors Report

For the year ended 30 June 2016



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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Mercer Group Limited and its subsidiaries ('the Group') on pages 21 to 59, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, statement of movements in equity and statement 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. 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 Consolidated Financial Statements**

The Board of Directors are responsible on behalf of the company for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Board of Directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 consolidated 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 consolidated financial statements on pages 21 to 59 present fairly, in all material respects, the financial position of Mercer Group Limited, and its subsidiaries as at 30 June 2016, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

A handwritten signature in blue ink, appearing to read "Deloitte", with a stylized flourish at the end.

**Chartered Accountants**  
26 August 2016  
Auckland, New Zealand

# Statutory Information

For the year ended 30 June 2016

## Mercer Board of Directors Principal Activity

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

In accordance with the constitution, all directors will continue in Office, until the 2016 Annual General Meeting, when one director will retire by rotation. Directors being eligible, may offer themselves for re-election in accordance with the Company's constitution. Mr Rookes will continue his role as Chief Executive Officer.

### Directors holding office during the period were:

| Directors Holding Office            | Remuneration |          |
|-------------------------------------|--------------|----------|
|                                     | 2016         | 2015     |
| John Dennehy [Independent Chairman] | \$52,000     | \$25,000 |
| Humphry Rolleston                   | \$38,000     | \$38,000 |
| Paul Smart [Independent]            | \$38,000     | \$38,000 |
| Richard Rookes                      | -            | \$38,000 |
| Garry Diack [Resigned]              | \$16,000     | \$42,000 |

## Committees of the Board

The Board has an Audit Committee and a Remuneration Committee.

### Audit Committee

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 committee members are:

- Paul Smart [Chairman]
- Richard Rookes
- John Dennehy

### External Auditors

The board ensures the auditor has fair remuneration for the agreed scope of the statutory audit and audit-related services. This year the audit was performed by Deloitte.

| Auditor's Remuneration | Remuneration |          |
|------------------------|--------------|----------|
|                        | 2016         | 2015     |
| Financial Statements   | \$85,000     | \$72,000 |
| Other Services         | -            | \$9,000  |

# Statutory Information

For the year ended 30 June 2016

## Remuneration Committee

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

The committee members are:

- Paul Smart
- John Dennehy.

## Employee Remuneration

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

|                     | 2016 | 2015 |
|---------------------|------|------|
| \$100,000 - 109,999 | 5    | 11   |
| \$110,000 - 119,999 | 5    | 2    |
| \$120,000 - 129,999 | 1    | 2    |
| \$130,000 - 139,999 | -    | 2    |
| \$140,000 - 149,999 | -    | 1    |
| \$150,000 - 159,999 | 1    | -    |
| \$160,000 - 169,999 | 1    | 1    |
| \$170,000 - 179,999 | 1    | 1    |
| \$180,000 - 219,999 | 1    | 2    |
| \$220,000 - 280,000 | -    | -    |
| \$281,000 - 349,999 | 1    | -    |
| \$350,000 - 399,999 | -    | 1    |

Note that these figures include equity based payments amounting to \$Nil (2015: \$28,000) for share payments (see note 20) of the Group Financial Statements.

### Diversity

At 30 June 2016, Mercer employed 119 staff, including 94 in the workshop, of which 110 (92%) were male and 9 (8%) were female. Compared to 2015 where 167 (86%) were male and 27 (14%) female employees. MGL encourages representation across both genders and all ethnicities but have a policy hiring on merit.

The 4 directors and 2 officers of the company as 30 June 2016 are currently male compared to 5 male directors and 2 male officers in 2015.

## Corporate governance processes

Pursuant to NZX Listing Rule 10.4.5(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.

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

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

# Statutory Information

For the year ended 30 June 2016

## Directors' Interest Register

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.

| Name of Director   | Description of interest   |
|--|---|
| <p>Humphry John Davy Rolleston</p> <p>Appointed 6 August 1986</p> <p>Non-executive</p>   | <p>Director - Save A Watt Ltd</p> <p>Director - Asset Management Ltd</p> <p><i>Asset Management is owned by the Rolleston Investment Trust of which Humphrey is a trustee</i></p> <p>Director - Gresham Finance Ltd</p> <p><i>Gresham Finance Limited is owned by Asset Management Ltd</i></p> <p>Director - Stray NZ Ltd</p> <p>Director - Guthrey Holdings Ltd</p> <p>Director - Spaceships Ltd</p> <p>Director - ANZCRO Pty Ltd</p> <p>Director - Simmonds Timber Ltd</p> <p>Director - Infratil Ltd</p> <p>Director - Matrix Security Group Ltd</p> <p><i>Asset Management Limited is a shareholder in Matrix Security Group Ltd</i></p> <p>Director - McRaes Global Engineering Ltd</p> <p>Director – McRaes Land Holdings Limited (1284473)</p> <p>Director – Hydraulic Industries Limited (1597079)</p> <p>Director – Plant Investments Limited (5213681)</p> <p>Director - MATRIX Security Group Limited (879630)</p> <p><i>Asset Management Ltd is the ultimate shareholder in McRaes Engineering Ltd</i></p> <p>Director - Property for Industry Ltd</p> <p>Director - Murray &amp; Company Ltd, Murray Capital Ltd and Murray Capital General Partner Ltd</p> <p><i>Murray Capital Partner Ltd is the general partner of the Rakaia Fund. Asset Management is Ltd partner in the Rakaia Fund</i></p> |
| <p>John. F Dennehy</p> <p>Appointed 26 February 2015</p> <p>Non-executive Independent Chairman and a member of the Audit Committee</p>                   | <p>Director - Zagato Ltd (a private company)</p> <p>Director - Marketing file Ltd., a UK private company</p>  |
| <p>Richard Rookes</p> <p>Appointed 21 Feb 2011</p> <p>Appointed CEO in July 2015</p> <p>Executive and member of the Audit and Remuneration Committee</p> |   |
| <p>Paul Smart</p> <p>Appointed 31<sup>st</sup> July 2012</p> <p>Non-executive and independent Chairman of the Audit Committee</p>                        | <p>Director - Berwick Holdings Ltd</p> <p>Director - Sunrise Consulting Ltd</p> <p>Director - Solar City</p> <p>Trustee - Bellbird Trust</p> <p>Trustee - Saddleback Trusts</p> <p>Director and Chair Audit Committee - Intercity Group</p>   |

# Statutory Information

For the year ended 30 June 2016

## Directors Shareholding

| Directors Shareholding                         | Voting Securities Total | Beneficial Interest |            | Associated Persons |            | Non Beneficial |             |
|--|-------------------------|---------------------|------------|--------------------|------------|----------------|-------------|
|  |                         | 2016                | 2015       | 2016               | 2015       | 2016           | 2015        |
| <b>H J D Rolleston</b>                         |                         |                     |            |                    |            |                |             |
| HJD Rolleston & G W Riley                      |                         | 35,687,988          | 35,687,988 |                    |            |                |             |
| HJD Rolleston Asset Trading Ltd                |                         | 26,482              | 26,482     | 612,567            | 612,567    |                |             |
| Victoria Mansions Limited                      |                         |                     |            | 21,599             | 21,599     |                |             |
| Asset Management Limited                       |                         |                     |            | 44,737,879         | 44,737,879 |                |             |
|  | 81,086,515              | 35,714,470          | 35,714,470 | 45,372,045         | 45,372,045 |                |             |
|  | 25.99%                  |                     |            |                    |            |                |             |
| <b>R Rookes</b>                                |                         |                     |            |                    |            |                |             |
| Murray Capital Rakaia Fund Limited Partnership |                         |                     |            |                    |            | -              | 100,000,000 |
|  | 100,000,000             |                     |            |                    |            | -              | 100,000,000 |
|  | 32.05%                  |                     |            |                    |            |                | 32.05       |
| <b>Total Shares in issue at 30 June 2016</b>   | 311,970,446             |                     |            |                    |            |                |             |

## Directors Notice

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.

## Directors' Indemnity and Insurance

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 \$12,506.

## Donations

Mercer made no donations during either year.

# Statutory Information

For the year ended 30 June 2016

## Shareholders Analysis

The shareholder information detailed in this report has been taken from the Company's Register as at 26 August 2016

### Domicile of security holders

|                | Number of holders | %     | Number of shares held | %     |
|----------------|-------------------|-------|-----------------------|-------|
| New Zealand    | 514               | 97.35 | 310,832,214           | 99.64 |
| Australia      | 11                | 2.08  | 621,850               | 0.20  |
| United Kingdom | 3                 | 0.57  | 516,382               | 0.17  |
|                | 528               | 100.0 | 311,970,446           | 100.0 |

### Range of shareholdings

|                   | Number of holders | %     | Number of shares held | %     |
|-------------------|-------------------|-------|-----------------------|-------|
| 1 to 1,000        | 74                | 14.02 | 33,721                | 0.01  |
| 1,001 to 5,000    | 133               | 25.19 | 341,460               | 0.11  |
| 5,001 to 10,000   | 68                | 12.88 | 449,710               | 0.14  |
| 10,001 to 100,000 | 166               | 31.44 | 5,219,303             | 1.67  |
| 100,001 and over  | 87                | 16.47 | 305,926,252           | 98.06 |
|                   | 528               | 100.0 | 311,970,446           | 100.0 |

### Substantial security holders

The following information is given in accordance with Section 293 of the Finance Markets Conduct Act 2013. According to notices received, the following persons were substantial security holders in the Company as at 30<sup>th</sup> June 2016:

|  | Relevant Interest<br>Voting Securities | % of Shares |
|--|--|-------------|
| HJD Rolleston                              | 118,308,912*                           | 37.92       |
| Murray Capital Rakaia Fund Ltd Partnership | 100,000,000*                           | 32.05       |
| RD Sheppard                                | 35,070,634*                            | 11.24       |

\* The total number of voting securities of the Company on issue at 30<sup>th</sup> June 2016 was 311,970,446



# Statutory Information

For the year ended 30 June 2016

## Shareholder information

The information in the disclosures below have been taken from the Company's register at 8<sup>th</sup> September 2016.

Twenty largest shareholders:

| Holder  | Number held        | % of Issue Capital |
|---|--------------------|--------------------|
| Asset Management Limited                          | 44,737,879         | 14.34              |
| New Zealand Central Securities Depository Limited | 35,746,089         | 11.46              |
| Humphry John D Rolleston & Graham William Riley   | 35,687,988         | 11.44              |
| Custodial Services Limited                        | 14,726,254         | 4.72               |
| Rodger David Shepherd                             | 14,410,333         | 4.62               |
| Whitford Equity Investments Limited               | 14,285,714         | 4.58               |
| Spence Investment Holdings Limited                | 9,950,249          | 3.19               |
| Vienna Investments Limited                        | 6,633,499          | 2.13               |
| Murray Capital Rakaia Fund Limited Partnership    | 6,633,493          | 2.13               |
| RD & Tr Shepherd Limited                          | 6,374,587          | 2.04               |
| Quiver Tree Limited                               | 5,306,799          | 1.7                |
| Barry David Lobb                                  | 4,680,329          | 1.5                |
| Andrew Wayne Scott                                | 4,350,000          | 1.39               |
| Parvenu Holdings Limited                          | 3,880,317          | 1.24               |
| Accelerated Transaction Consulting Limited        | 3,713,487          | 1.19               |
| Paul Hewitson & Christopher John Stark            | 3,536,019          | 1.13               |
| FNZ Custodians Limited                            | 3,323,216          | 1.07               |
| Prospect Custodian Limited                        | 3,316,750          | 1.06               |
| K One W One (No 2) Limited                        | 3,316,750          | 1.06               |
| Development West Coast                            | 3,316,750          | 1.06               |
| <b>Totals</b>                                     | <b>234,030,532</b> | <b>75.00</b>       |

## Company Directory

### REGISTERED OFFICE

53 Lunn's Road  
Middleton  
Christchurch

### SOLICITORS

Buddle Finlay  
188 Quay Street  
Auckland

### SHARE REGISTRY

Link Market Services  
PO Box 91976  
Auckland 1142

### BANKERS

Bank of New Zealand Limited Level 1, 86  
Highbrook Drive  
East Tamaki  
Auckland 2013

### AUDITORS

Deloitte  
Levels 13- 18  
80 Queen Street  
Auckland

## Sites

### CHRISTCHURCH

53 Lunn's Road, Middleton, Christchurch  
Ph: +64 (3) 348 7039

### NEW PLYMOUTH

Corbett Road, Bell Block, New Plymouth  
Ph: +64 (6) 755 1276





#### **Christchurch**

53 Lunns Road, Middleton, Christchurch

Ph: +64 (3) 348 7039

#### **New Plymouth**

Corbett Road, Bell Block, New Plymouth

Ph: +64 (6) 755 1276

[www.mercers.co.nz](http://www.mercers.co.nz)