MERCER GROUP LIMITED
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MERCER GROUP LIMITED

2013
Annual Report




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Directors' Report
For the year ended 30 June 2013

Chairman's review

This report highlights the progress that Mercer has made in the last two years and how this is providing a platform for sustainable growth in the future. As indicated last year Mercer is returning to both sustained profitability and sustainable value improvement following the changes made in the 2011 financial year. We have both continued to improve the operational performance of the company and made appropriate investments for future value to be created.

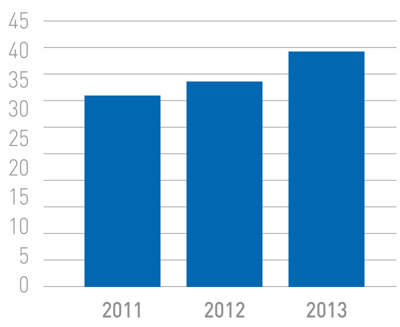
A key feature of 2013 has been the targeted investment in research and development, in particular:

- S-Clave sterilisation technology; and
- The acquisition of Titan Slicers Limited which has world leading design capability in food processing technology.

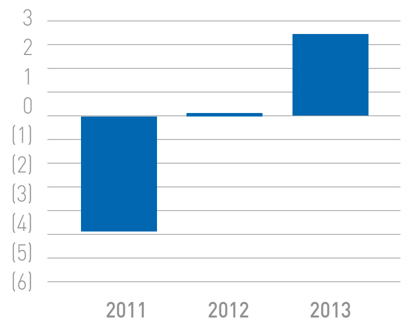
Both of these strategic initiatives are expected to greatly enhance Mercer's ongoing earnings.

In the 2013 financial year Mercer generated sales of $38.8m. We are recognised as a market leader in our chosen industries and an increasing percentage of its sales are to overseas markets. Revenue and Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) are set out below:

Revenue ($m)



EBITDA ($m)



I would like to take this opportunity to acknowledge the long-standing contribution of Stuart Heal who retired from the Board in November 2012. We welcomed Paul Smart on to the Board in July 2012, Paul brings an extensive governance background in cooperative, publicly listed and private companies. Paul chairs the Audit Committee.

I would also like to acknowledge the very significant input from Terry Moratti for a life time of service to our New Plymouth branch, and welcome his replacement, Kelvin Wright, to the company.

We will be holding our Annual General Meeting in Christchurch on 10 December 2013.

Garry Diack

Directors' Report
For the year ended 30 June 2013

CEO review
Overview of FY13

At last year's Annual General Meeting, I outlined a number of objectives for the year. I list these again in the table below.We have not achieved all we had expected, but we have made considerable progress, particularly when compared to the previous year.

2013 objectives		2013 outcomes
Achieve trading Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of at least $3m	✗	EBITDA of $2.5m was achieved. This includes some one-off costs that we have absorbed into the result that we didn't budget (including for example $0.2m in rent payments for an empty building that couldn't be sub-let). This result is well up on a normalised $1.1m from 2012.
Meet banking covenants	✓	Achieved.
LTIFR tracking below 10	✓	Achieved LTIFR of seven for the year.
Commercialise an R&D project	✓	Mercer has successfully developed tight radius pressed sinkware that it is now selling. We have also developed the Ultraclave this year and made good progress on commercialising the S-Clave technology.
Revenue growth of at least $10m versus 2012	✗	Revenue growth of $5.5m was achieved.

Financial performance

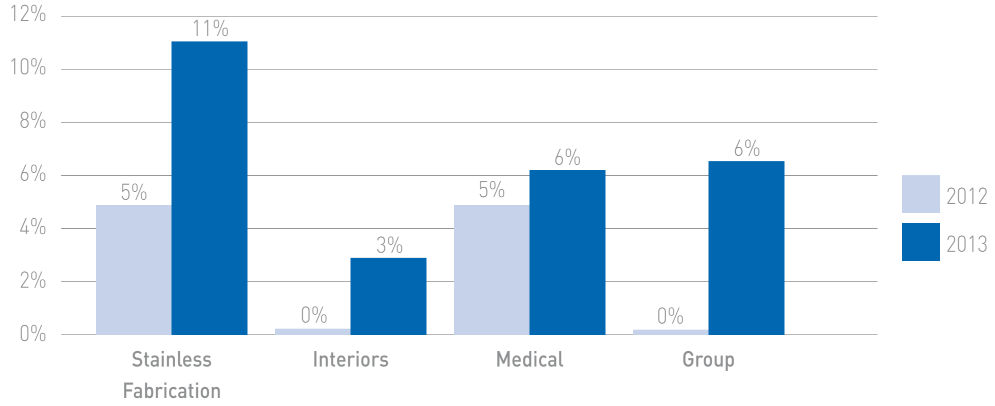
Mercer has continued to show strong growth in profitability with EBITDA of $2.5m compared to $0.1m in 2012 (or $1.1m after deducting the one-off costs and first quarter losses in Australia). This reflects:

- The full year benefit of the restructure of all our trading activities in the year ended 30 June 2012 and a refocus on key markets. All our divisions now have positive EBITDA which is particularly pleasing given the situation that existed two years ago.
- We had a strong year from the Stainless division, with the dairy expansion across the country providing a good base level of work.
- The acquisition of 75% of Titan Slicers added a decent increment to the group EBITDA, and we are pleased with this acquisition to date. The installation of four slicing lines into Maple Leaf Foods in Canada took longer and absorbed more resource than we had planned. The flow on effect meant fewer new Slicer sales at the end of the year than we had expected.
- The Interiors divisions revenues did not grow as we had forecast, although EBITDA in this division did increase. Notwithstanding the revenue shortfall, we believe the market is improving and our prospects for the year ending 20 June 2014 are improved.
- During 2013 we have continued to broaden our product range within our key markets. We are driving more profitable business through developing value-added solutions for our customers.

Directors' Report
For the year ended 30 June 2013

Our focus has led to improved profitability across each division as follows:

Divisional and Group EBITDA: Revenue Percentage



Funding and cash flow

After 2012's hallmark year delivering turnaround performance, 2013 has been a year of building on these gains but also in investing in the future of Mercer as follows:

- Titan: Mercer purchased a 75% stake in the net assets of Titan and paid $0.8m in 2013.
- ivs500 slicer: Mercer has also invested further funds for working capital and development of the ivs500 slicer that is world class. Following the successful implementation at Maple Leaf Foods, we now have a reference site in the North American market which positions it well for growth in coming years.
- S-Clave: the main focus of Mercer Technologies has been the commercialisation of the S-Clave Technology. In the year ended 30 June 2013, Mercer invested $0.6m in S-Clave. Mercer is close to signing a license agreement with a large multi-national company for the North American rights.
- Mercer Interiors has invested in tooling for new tight radius pressed sinkware at a cost of $0.3m. Mercer has spent six months to develop new tooling and capability to manufacture new modern sinkware that is unique in the southern hemisphere. Mercer has signed up an exciting new distributor for Australia as a result of this development.
- Ultraclave 16: Mercer Technologies has spent $0.1m in developing the Ultraclave 16 which is a small autoclave tailored to smaller clinics. It is the lightest and smallest footprint autoclave in the market. Launched in New Zealand in June 2013, we believe this product will have international appeal.

The $5.8m growth in sales has consumed $1.8m of working capital.

This investment has been funded out of retained earnings and a new debt facility that was negotiated with the Bank of New Zealand. This facility is $3.65m with a committed cash advance facility of $4.0m and an overdraft of $1m. At 30 June 2013, Mercer had undrawn facilities of $1.6m.

Directors' Report
For the year ended 30 June 2013

Strategic direction

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

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

Our company values are:

1.	Customer orientated organisation.
2.	Innovative, solutions focused.
3.	Supplier of higher quality products and services.
4.	Action biased.
5.	Mindful of the community and environment.
6.	Safe and healthy work place.
7.	Highest ethical standards.
8.	Working towards a common purpose.
9.	Respect for those we interact with.
10.	Proud custodian of "Mercer" (since 1884).

Recruitment and retention

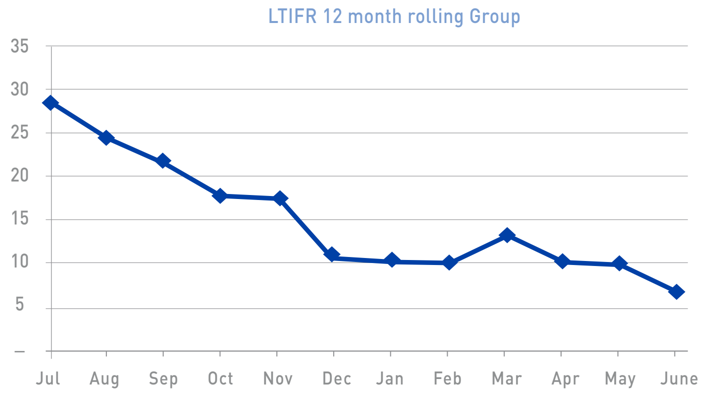
Mercer has invested in strengthening the management team since the appointment of Rodger Shepherd and Tobin Blathwayt in 2011. There have been a number of new appointments of general managers in the 2012 financial year and in 2013 Mercer created a new role, General Manager Technologies, and has recruited an experienced research and development commercialisation professional, Alon Dowman, to fill this role. Following Terry Moratti's retirement, Mercer has recruited Kelvin Wright to manage the New Plymouth branch.

Mercer has focused on improving its management depth and in the last twelve months has appointed a sales manager for the Stainless business, an operations manager in Titan, a commercial sales manager and factory projects manager for the Interiors business, as well as investing in greater sales resource in Medical. Staffing levels across the group have grown from 161 to 187.

We value our staff and have a legacy of experienced and highly proficient personnel in the field, which we are looking to build on through apprenticeship schemes and offering staff an attractive career path. We are seeking to build diversity within our business.

Health and Safety

Mercer's commitment to health and safety in the workplace continues. The Lost Time Injury Frequency Rate (LTIFR) which was tracking at around 40 in December 2011 has now reduced to seven for the full year. The chart below plots the decline in LTIFR on a rolling annual basis.

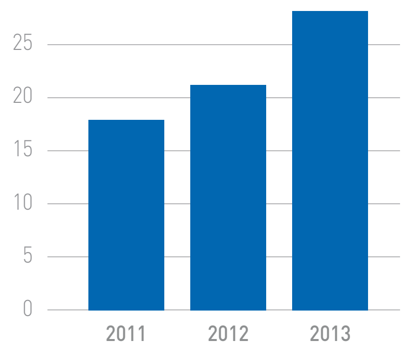


Directors' Report
For the year ended 30 June 2013

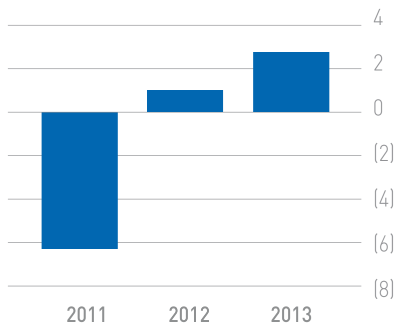
Division overviews and significant projects

Stainless Fabrication and Equipment

Stainless Division Revenue ($m)



Stainless Division Segment EBITDA ($m)



The Stainless division comprises workshops in Christchurch and New Plymouth with a sales office in Auckland, and branches in Brisbane, Australia and Nelson.

The Stainless division is a fabricator of equipment predominantly in stainless steel, some of which is Mercer proprietary equipment. The main products manufactured are set out below:

- Silos, tanks and powder bins primarily in the dairy industry.
- Cheese processing equipment.
- Slicing machinery through Titan Slicer for use in meat, fish and vegetable processing.
- Mercer Betavac vacuum packing and leak detection equipment for cheese.
- Mercer Aico erectors, lidders and compactors and associated conveyors used primarily in meat processing.
- Mercer Cooking vessels and heating and cooling tunnels.
- Mercer PV valves (patented) on use in almost all milk tankers across NZ.

Mercer also acts as agent for a number of overseas manufacturers such as: NBE (bulk packaging equipment); SAS (spice application systems); Thermo Fisher Scientific (scanners); Enmin; Piab (vacuum conveyor systems); and HMPS packaging.

Silos at Darfield plant

Directors' Report
For the year ended 30 June 2013

The standout projects in 2012/3 for the Stainless Fabrication business were:

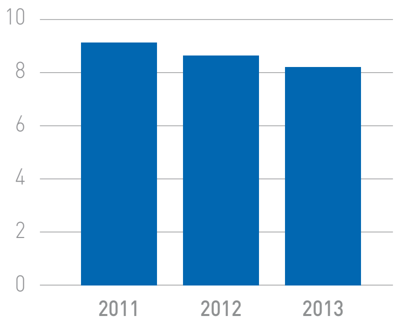
- GEA, the lead contractor, chose Mercer to manufacture its silos (see previous page) for stage one and stage two of the Fonterra Darfield plant.
- Open Country Dairy cheese hall upgrade
- Titan Slicers installed four ivs500 slicers into a new plant at Maple Leaf Foods in Winnipeg, Canada. These slicers were the first of the new generation machines sold with sophisticated weight and vision control that Titan has developed and patented. We believe the performance of the Titan Slicer has been demonstrated to be superior to that of its competitors.

Titan ivs500 slicer

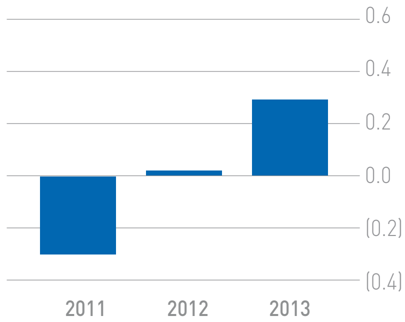
Directors' Report
For the year ended 30 June 2013

Interiors Division

Interiors Division Sales ($m)



Interiors Division segment EBITDA ($m)



The Interiors division has a well-equipped, modern manufacturing facility in Christchurch and supplies sinks, basins, tubs, toilets, laminate and solid surface material and similar products to joiners, merchants, fabricators and other manufacturers in New Zealand. Interiors are the New Zealand representative of WIlsonart laminate, the world's leading brand of laminate, and also represents Reginox sinkware in New Zealand.

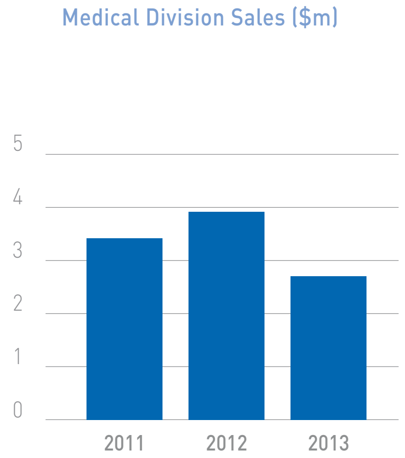
Much of the focus in the year ended 30 June 2013 has been to develop a range of new tight radius pressed sinkware the likes of which are only currently available out of Europe. We believe the new sinkware will not only have huge appeal in New Zealand but also export markets. The tight radius bowls made in Asia are all hand welded which adds considerable cost and adds weld lines that are not present in the Mercer seamless sinkware.

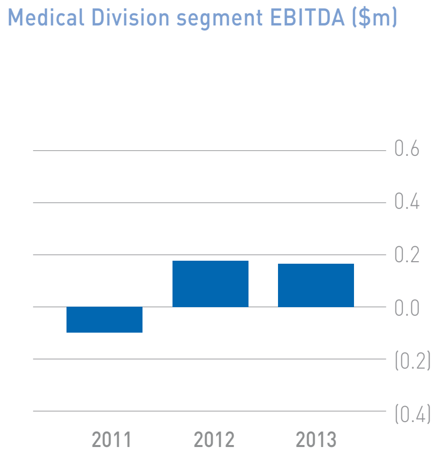
WilsonArt laminate benchtop and walls; Mercer Stainless steel bowl

As noted last year, we have found the Australian market difficult to penetrate owing to difficulties with the Australian Distributer. Mercer has recently entered into new agreements with two distributors which should ensure improved sales into Australia in the year ending 30 June 2014.

Directors' Report
For the year ended 30 June 2013

Medical Division





Mercer Medical supplies equipment and related products and services for sterilisation, washing and disinfection. During the year, Mercer Medical established a reference site with the first sales of MMM sterilisers to Southern Cross Group. MMM is a world leading manufacturer of sterilisers.

The Mercer team of expert technicians are located around New Zealand, servicing a range of Centralised Sterile Services Department equipment. Mercer provides a range of consumables to complement the washers and sterilisers. Mercer goes into the 2014 financial year with a much stronger forward order book now that MMM has been successfully established in the NZ market, and we expect an increase in sales in the year ending 30 June 2014.

Directors' Report
For the year ended 30 June 2013

Research and Development (Mercer Technologies)

Mercer has a proud history of developing innovative products and has a strong portfolio of proprietary products which are currently in the R&D phase.

Mercer has increased the level of investment and resource employed in research and development. With the appointment of Alan Dowman to a new post of General Manager - Mercer Technologies, Mercer has a greater commercialisation focus to leverage the innovative ideas within the business. Further investment in people is planned for 2014 as Mercer seeks to capitalise further on this R&D base.

The main focus this year has been on three projects; S-clave, Ultraclave 16 and BetaVac Leak Detector.

- The S-clave has been the primary focus of Mercer Technologies this year. We are close to signing a license agreement for the North America market that will include some up-front payments over the first 3 years, followed by a significant future royalty stream should the technology be developed as we would like.
- The Ultraclave 16 is the most compact steriliser on the market today. Bringing together the Stainless division's design and manufacturing expertise with the Medical division's deep market understanding and software programming skills, Mercer has developed a lighter, small footprint, more cost effective steriliser. This was exhibited at the New Zealand dental conference in April 2013 and following this conference, commercial production is beginning for the New Zealand market and has the potential to be rolled out to overseas markets in the future.
- The BetaVac Leak detector. This is a new addition to the BetaVac cheese packaging range that allows customers to check there is no leak in the vacuum packed bag through innovative (patent pending) technology. A prototype of this new machine has been successfully tested with a large NZ cheese manufacturer and is close to commercialisation.

Mercer has a number of other projects in its pipeline which it intends to pursue in the next financial year ranging from early stage development to commercialising existing intellectual property further. The main focus of our research and development projects is in the healthcare sector where we believe Mercer intellectual property has a worldwide application and in the cornerstone New Zealand dairy sector.

Market growth and performance

Mercer operates in a range of industries with different economic cycles. Mercer's strategy for its Stainless Fabrication division is to reduce its dependence on third party fabrication for the dairy sector and to complement this with more capital equipment sales, particularly in the meat and other food processing sectors as well as the dairy sector. The Interiors and Medical divisions' economic cycles are largely independent of the dairy and food processing sectors.

Dairy

- There has been considerable investment in the dairy sector in recent years following a trend of increased processing of milk solids as follows:

Season	Milk processed (million litres)	Milkfat processed (million kgs)	Protein processed (million kgs)	Milksolids processed (million kgs)
1977/78	5,238	251	186	437
2007/08	14,745	722	548	1,270
2008/09	16,044	791	602	1,393
2009/10	16,483	817	622	1,438
2010/11	17,339	859	654	1,513
2011/12	19,129	954	731	1,685
CAGR 2007-12	6.7%	7.2%	7.5%	7.3%

Source: New Zealand Dairy Statistics 2011-12

At the same time there has been a concentration in herd sizes with the average herd size increasing from 351 to 393 in the last five years. The increased milk production and processing has meant that there has been a demand for more processing capacity with some greenfield and expansion operations. With a presence in the South Island and the North Island, Mercer has been well placed to take advantage of this. The table below shows the main dairy factory projects Mercer has secured some work with since 2010:

Year	Dairy factory	Lead contractor	Project
2010	Miraka	GEA	Product silos
2010	Synlait	Tetra Pak	Stage 2 tanks and silos
2010	Tatura	Tetra Pak	Powder bins
2010	Fonterra, Darfield	GEA	D1 tanks and silos
2011	Westland Dairy, Rolleston	Pacific Process	Silos
2011	Guardians, Balclutha	SPX	Product silos and CIP tanks
2012	Fonterra, Darfield	GEA	D2 tanks and silos
2013	Oceania Dairy - Yili	Tetra Pak	Powder Bins and silos

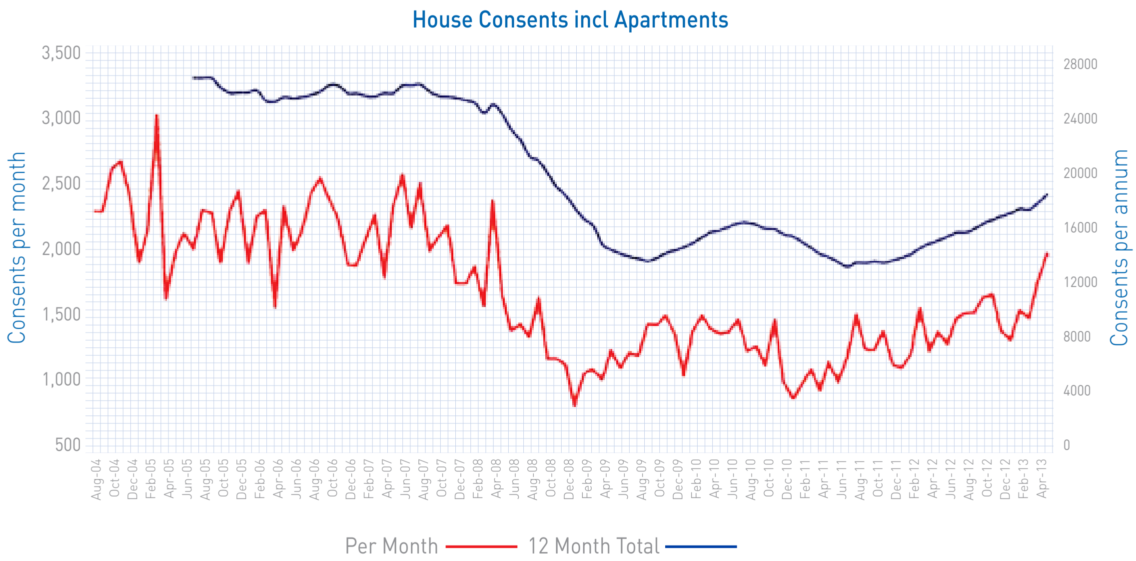
There are a number of significant dairy projects announced or likely to proceed in 2013 and 2014. Mercer expects to continue to secure a good share of the work.

Meat

- Mercer has a strong pedigree in the meat sector with the sale of erectors, lidders and compactors and associated conveyor systems (Mercer brands these machines as Aico) predominantly for Australasian meat export markets where we are the market leader with over 50% share of erectors, lidders and compactors.
- With the acquisition of Titan, Mercer now has the opportunity to secure sales in the pork market in North America. This is a sector that is very sizeable employing 35,000 FTEs directly and a further 515,000 indirectly in the US with revenues of US$97 billion contributing US$34 billion to the US gross national product (source: New Zealand Trade and Enterprise). In the same way that diary has consolidated to a smaller number of large herds, the pork industry in the US has become more concentrated. This makes the ability to rapidly slice, grade and weigh bacon critical. We believe that the total market size for slicing machinery in North America to be around US$200m per annum.

Housing

- The building recovery in Christchurch is underway. The residential dwelling housing consents are on an upward trend with May 2013 being the best number since April 2008 following a gradually improving trend over the last twelve months. Auckland and Christchurch are the main drivers of this growth with Waikato also performing well. With the introduction of the new tight radius sinkware range, Mercer is well positioned to take advantage of this improving trend.



Directors' Report
For the year ended 30 June 2013

Health

That sector has shown above GDP growth historically and we anticipate that this will continue in the current political climate. Our focus is on the central sterile services departments: where the expenditure is dependent on the levels of new build and refurbishment of hospitals. This spend can vary year on year.

Other

Mercer also sells into the chemical and pharmaceutical, brewing, pulp and paper, mining and forestry industries.

Outlook for 2014

Mercer is well positioned to benefit from the investment that it has made in 2013; in particular, Titan Slicers, further developing the S-Clave, and the new sinkware tooling. With the additional sales staff we have recruited and momentum underway across the business we believe that we are better positioned than 12 months ago. Mercer will continue to search for attractive bolt-on type acquisitions that complement our business units and fit with our strategic plan of increasing export sales of NZ made products.

With a strong orderbook, we are approaching the 2014 financial year with confidence and are expecting to make an improved EBITDA. We expect our total capital expenditure and R&D spend to be in the range of $1m - $1.5m.

Rodger Shepherd
Chief Executive Officer

Directors' Report
For the year ended 30 June 2013

Board of Directors

Director profiles

Name and date appointed	Role	Matters entered in the interests register	Shareholdings at 30 June 2013
Garry Diack appointed 6 May 2011	Non-executive, independent Chairman, chair of the remuneration committee, and member of the audit committee.	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • Vera Facienda Limited • CPI Limited • General Cable Superconductors Limited • Solid Energy Land Holdings • Spring Creek Mine Holdings Limited • Spring Creek Mining Company • Coal Bed Methane Limited • Coal New Zealand International Limited • Coal New Zealand Limited • Pike River 2012 Limited • Solid Energy Briquettes Limited	115,320 shares held beneficially
Humphry Rolleston appointed 6 August 1986	Non-executive and member of the remuneration committee	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • Save A Watt Limited • Asset Management Limited • Gresham Finance Limited • Craigpine Timber Limited • Infratil Limited • Matrix Security Group Limited • McRaes Engineering Limited • Property for Industry Limited • Sky Network Television Limited • Murray & Company Limited • Murray Capital Limited • Murray Capital General Partner Limited	35,714,470 shares held beneficially Associated persons of Mr Rolleston held 49,732,212 Mr Rolleston is a minority shareholder of Murray Capital Rakaia Fund Limited Partnership which at 30th June 2013 held 65,628.467 shares and 34,371,533 warrants outstanding
Richard Rookes appointed 21 February 2011	Non-executive and member of the audit committee	Mr Rookes is a shareholder of: • Murray & Company Limited • Murray Capital Limited	Mr Rookes is a related party of Murray Capital Rakaia Fund Limited Partnership which at 30th June 2013 held 65,628.467 shares and 34,371,533 warrants outstanding
Rodger Shepherd appointed 25 May 2012 (Board). Appointed CEO in August 2011	Executive	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • Triplex Management Limited • RD & TR Shepherd Limited • Unit2Go Limited • Honnor Drillers Holding Limited • Honnor Drilling Limited	20,555,043 shares held beneficially Options to a purchase a further 26,050,420 shares and entitled to 1% of the equity of Mercer during the 2014 and 2015 financial years
Paul Smart appointed 31 July 2012	Non-executive, independent and chairman of the audit committee	Declared directorships with companies that might trade on a commercial basis with companies in the Mercer Group: • Postie Plus Group Limited • NZPM Group Limited • D'Arcy Polychrome Limited • Pacific Channel Limited • Sunrise Consulting Limited	

Directors' Report

For the year ended 30 June 2013

Garry Diack, is currently the Interim Chief Executive of Solid Energy Limited having worked in Solid Energy since 2010. Prior to that Garry owned and operated an Australasian based strategy consulting company that has seen him involved in a number of post-merger integration, share price recovery and performance turn around initiatives across a number of large corporate and medium sized companies in New Zealand and Australia for the last 15 -20 years. Garry is a member of the Institute of Directors.

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

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

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

Directors' Report

For the year ended 30 June 2013

Executive team and employees

Name	Role	Age*	Date appointed
Rodger Shepherd	Chief Executive Officer	43	August 2011
Tobin Blathwayt	Chief Financial Officer	45	August 2011
Alan Dowman	General Manager, Mercer Technologies	52	November 2012
Ross Coppard	Operations Manager, Stainless Division	43	February 1987
Sean Marr	Chief Executive, Titan Slicers Limited	48	July 2012
Kelvin Wright	Branch Manager, Stainless New Plymouth	40	April 2013
Denis Nolan	Branch Manager, Stainless Australia	62	February 2011
Hayden Searle	General Manager, Mercer Interiors, New Zealand	42	February 2012
Charles Brothers	General Manager, Medical Division	43	September 2011

** At 30 June 2013*

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

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

Alan Dowman, General Manager Technologies, is responsible for the identification, development and profitable international commercialisation of innovative products, based on Mercer intellectual property. With his broad experience in innovation management, as well as being a trade certified engineer with a certificate in marketing management and hands on experience in international marketing and business development, Alan led the development of two separate start-up businesses in technically complex areas, each from a zero base to achieving over $30m revenue within three to five year periods. Alan is an advocate of continuous improvement and has taken a number of companies to ISO 9001, ISO 4801 or ISO 14001 certifications, and in 2010 was an associated recipient of the NZ Supreme Safety Award. During his time as General Manager of Nutraceuticals, Alan received a Dairy Industry Innovation Award.

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

Directors' Report
For the year ended 30 June 2013

Sean Marr, Chief Executive Officer of Titan Slicer Limited, is responsible for the day to day running of Titan Slicer and its global operations. With a key focus on sales of equipment, Sean has a degree in electrical engineering obtained from the New Zealand Electricity Department. Sean has worked for such companies as Marconi, Toyota and the Alliance Group. In 1990 he owned and operated an electrical contracting business growing it from three staff to 65 across three branches. Sean purchased Titan slicer in 2008 and was responsible for the development of the Titan ivs500 slicer. In 2012 Sean and his partners sold 75% of the business to Mercer to enable rapid growth of the business.

Kelvin Wright manages the New Plymouth Stainless Fabrication branch. Kelvin recently joined Mercers after nine years as Design and Business Development Manager of a large engineering company. Kelvin has a background in Mechanical Engineering Design, and Project Management closely related to large scale manufacturing operations in New Zealand. Kelvin started his career at Fisher & Paykel Appliances progressing to a senior mechanical design role principally focused on tooling and automation of production lines. Kelvin is currently completing a Masters of Business Administration from Massey University.

Denis Nolan is a Mechanical Engineer who graduated in 1977 and started work in the food industry in 1986. Before joining Mercer, Denis worked for the world's leading snack food processing machinery manufacturer, then an international biscuit, coffee and snack producer, followed by the world's leading packaging machine manufacturer before coming to Mercer. He has over thirty years' experience in the food industry with twenty of these years working predominantly in the Asian market.

Hayden Searle, General Manager Interiors Division, is responsible for growing the consumer products arm of the Mercer Group. Hayden has deep experience in laundry and kitchen businesses and brings an understanding of total business effectiveness from many years of Fast Moving Consumer Goods sales executional roles. Hayden has a Bachelor of Commerce from Auckland University.

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

Employees

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

	2013	2012
$100,000 – 109,999	4	1
$110,000 – 119,999	1	1
$120,000 – 129,999	1	1
$130,000 – 139,999	2	3
$140,000 – 149,999	1	-
$150,000 – 159,999	1	-
$160,000 – 169,999	1	2
$170,000 – 179,999	1	1
$210,000 – 219,999	-	1
$220,000 – 229,999	1	-
$370,000 – 379,999	-	1
$550,000 – 559,999	1	-

Note that these figures include equity based payments amounting to $254,000 (2012: $101,000) for share based payments (see note 28(b) to the Accounts.

At 30 June 2013, Mercer employed 187 staff including 99 in the workshop: excluding workshop staff the company has 70% male and 30% female. We encourage representation across both genders and all ethnicities but have a policy hiring based on merit. The directors and officers of the company are currently all male.

Mercer made no donations during either year.

Directors' Report
For the year ended 30 June 2013

Corporate Governance

Board of Directors

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

Directors holding office during the period were:

Garry Diack
Humphry Rolleston
Richard Rookes
Rodger Shepherd
Stuart Heal (resigned 4th November 2012)
Paul Hewitson (resigned 31st July 2012)
Paul Smart (appointed 31st July 2012)

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

Independent Directors

In accordance with NZX Listing Rules 3.3.2 and 10.5.3(l) the directors determined that the following directors were independent directors as at 30 June 2013:

G Diack
P Smart

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

Committees of the Board

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

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

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

Corporate governance processes

Pursuant to NZX Listing Rule 10.5.5(i) the Company is required to disclose in this annual report the extent to which its corporate governance processes materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

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

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

Directors' Report
For the year ended 30 June 2013

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

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

Remuneration of Directors

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

	2013 $	2012 $
G Diack	25,084	45,000
SB Heal	15,833	38,000
P Hewitson	6,333	38,000
HJD Rolleston	38,000	38,000
R Rookes	38,000	38,000
P Smart	35,423	-

Interests Register

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

Details of all matters that have been entered in the interests register by individual directors are outlined in the director profiles on page 15. Where a director has declared an interest in a particular entity, as a shareholder and/or director, the declaration serves as notice that the director may benefit from any transaction between the Parent or Group and the identified entities.

Information used by Directors

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

Insurance of Officers and Directors

Mercer Group Limited has arranged a policy of directors' liability insurance that ensures that officers and directors will not generally incur monetary loss as a result of actions undertaken by them as directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of the law. The total cost of this insurance for the financial year was $13,000.

Directors' Report
For the year ended 30 June 2013

Shareholders

Shareholder information

The ordinary shares of Mercer Group Limited are listed on the New Zealand Stock Exchange. The information in the disclosures below have been taken from the Company's registers at 11 September 2013.

Twenty largest shareholders:

Holder	Number held	% of Shares on Issue
Murray Capital Rakaia Fund Ltd Partnership	65,628,467	27.38
Asset Management Limited	44,737,879	18.66
HJD Rolleston & GW Riley	35,687,988	14.89
Hubbard Churcher Trust Management Limited under Statutory Management	31,320,776	13.07
R Shepherd	20,555,043	8.58
Parvenu Holdings Ltd	6,880,317	2.87
Crown Asset Management Limited	5,749,465	2.40
BD Lobb	4,965,329	2.07
P Hewitson & CJ Stark	3,984,999	1.66
RJ Field & AJ Palmer	3,104,030	1.29
Pendene Farm Ltd	975,441	0.41
GB Lowe	828,934	0.35
Asset Trading Ltd	612,567	0.26
IF Farrant	538,240	0.22
Te Iwi Carving Ltd	489,669	0.20
DA Dempsey	486,667	0.20
RA Snowden	483,170	0.20
CL Roberts	460,026	0.19
RRJ Merrall	434,000	0.18
SM Stark	361,972	0.15
	228,284,979	**95.24**

Murray Capital Rakaia Fund Ltd Partnership has 34,371,533 warrants at an exercise price of $0.05 per share. Mercer has been advised that all these warrants will be exercised on 31 October 2013.

Directors' Report
For the year ended 30 June 2013

Distribution of security holders

Range of shareholdings	Number of holders	%	Number of shares held	%
1 to 1,000	90	20.83	47,147	0.02
1,001 to 5,000	128	29.63	363,437	0.15
5,001 to 10,000	51	11.81	384,258	0.16
10,001 to 100,000	106	24.54	3,876,973	1.62
100,001 and over	57	13.19	235,023,901	98.05
	432	100.0	239,695,716	100.0

Domicile of security holders	Number of holders	%	Number of shares held	%
New Zealand	418	96.76	238,714,754	99.59
Australia	11	2.55	815,184	0.34
Other	3	0.69	165,778	0.07
	432	100.0	239,695,716	100.0

Substantial security holders

The following information is given in accordance with Section 26 of the Securities Markets Act 1988. According to notices received, the following persons were substantial security holders in the Company as at 30th June 2013:

	Relevant Interest Voting Securities	% of Shares
HJD Rolleston	81,086,515*	33.55
Murray Capital Rakaia Fund Ltd Partnership	65,628,467*	27.38
Hubbard Churcher Trust Management Ltd under Statutory Management	31,320,776*	13.07

* The total number of voting securities of the Company on issue at 30 June 2013 was 239,695,716.

Auditors

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

	2013 $000	2012 $000
Auditing the financial statements	96	105
Other services	10	10
	106	115

Directors' Report
For the year ended 30 June 2013

MERCER GROUP LIMITED DIRECTORY

Mercer Group Limited

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

Mercer Group Limited

Financial Statements for the year ended 30 June 2013

Directors Report

The Directors have pleasure in presenting the Annual Financial Statements of Mercer Group Limited, for the year ended 30 June 2013.
The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 29 August 2013.

G Diack Director

R D Shepherd

Statements of Comprehensive Income

For the year ended 30 June 2013

	Notes	Group 30 June 2013 $000	Group 30 June 2012 $000	Parent 30 June 2013 $000	Parent 30 June 2012 $000
Revenue					
Sale of goods and contract revenue	6	38,761	33,286	-	-
Other income	7	12	24	611	603
Total income		**38,773**	33,310	**611**	603
Expenses					
Cost of inventory sold		(17,708)	(17,022)	-	-
Salaries and wages	9	(12,149)	(10,392)	-	-
Rental and operating leases		(1,426)	(1,240)	-	-
Depreciation	15	(823)	(810)	-	-
Amortisation	16	(30)	(23)	-	-
Other expenses	8	(4,989)	(4,559)	(7,660)	(886)
Surplus (deficit) before finance costs		**1,648**	(736)	**(7,049)**	(283)
Finance costs		(453)	(400)	(318)	(323)
Share of (losses) profits of associate	16	(2)	-	-	-
Surplus (deficit) before taxation		**1,193**	(1,136)	**(7,367)**	(606)
Income tax (charge) credit	10	(415)	174	24	80
Surplus (deficit) after tax		**778**	(962)	**(7,343)**	(526)
Other comprehensive income					
Items that may be subsequently charged or credited to profit and loss					
Currency translation differences		(147)	(46)	-	-
Other comprehensive income for the year, net of tax		**(147)**	(46)	**-**	-
Total comprehensive income for the period		**631**	(1,008)	**(7,343)**	(526)
Attributable to:					
- Owners of the parent		616	(1,008)		
- Non-controlling interest		15	-		
Total		**631**	(1,008)		
Basic earnings per share: Surplus (deficit) per share attributable to shareholders of the company (cents)	24	**0.31**	(0.43)		
Fully diluted earnings per share: Surplus (deficit) per share attributable to shareholders of the company (cents)	24	**0.24**	(0.33)		
Net tangible assets per share (cents)		**4.86**	5.38		

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

Statements of Financial Position

For the year ended 30 June 2013

	Notes	Group 30 June 2013 $000	Group 30 June 2012 $000	Parent 30 June 2013 $000	Parent 30 June 2012 $000
ASSETS					
Current assets					
Cash and bank balances	11	307	648	-	45
Accounts receivable	12	5,925	5,925	-	-
Other debtors and prepayments	12	289	374	8	64
Inventories	14	5,362	3,332	-	-
Total current assets		11,883	10,279	8	109
Non current assets					
Other debtors and prepayments	12	368	-	-	-
Property, plant and equipment	15	9,129	8,927	-	-
Intangible assets	16	5,754	3,637	-	-
Deferred tax asset	17	3,952	4,367	1,773	1,749
Investment in subsidiaries and associates	18	-	-	3,030	1,925
Advances to subsidiaries	18	-	-	21,644	28,546
Total non current assets		19,203	16,931	26,447	32,220
Total assets		31,086	27,210	26,455	32,329
LIABILITIES					
Current liabilities					
Bank overdraft	11	644	-	30	-
Trade and other payables	19	5,955	4,965	275	147
Employee entitlements		917	852	-	-
Derivative financial instruments	13	-	17	-	-
Advances from subsidiaries	20	-	-	1,428	1,428
Borrowings	20	775	600	700	600
Total current liabilities		8,291	6,434	2,433	2,175
Non current liabilities					
Borrowings	20	5,562	4,367	5,358	4,250
Total liabilities		13,853	10,801	7,791	6,425
NET ASSETS		17,233	16,409	18,664	25,904
EQUITY					
Contributed equity	21	29,084	28,981	29,084	28,981
Other reserves	22	2,032	1,932	-	-
Retained earnings	22	(13,888)	(14,504)	(10,420)	(3,077)
		17,228	16,409	18,664	25,904
Non-controlling interest		5	-	-	-
Total equity		17,233	16,409	18,664	25,904

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

Statements of Movements in Equity
For the year ended 30 June 2013

Group

		Attributable to the owners of the Group							
	Notes	Equity $000	Retained earnings $000	Share based payments reserve $000	Foreign currency translation reserve $000	Asset revaluation reserve $000	Total equity $000	Non-controlling interest $000	Total equity $000
Balance at 30 June 2011		27,981	(13,598)	-	(115)	2,149	16,417	-	16,417
Foreign currency translation reserve movement		-	-	-	(46)	-	(46)	-	(46)
Asset revaluation reserve movement		-	56	-	-	(56)	-	-	-
Deficit for the year		-	(962)	-	-	-	(962)	-	(962)
Total comprehensive income for the year		-	(906)	-	(46)	(56)	(1,008)	-	(1,008)
Issue of new shares	21	1,000	-	-	-	-	1,000	-	1,000
Dividends paid	23	-	-	-	-	-	-	-	-
Balance at 30 June 2012		28,981	(14,504)	-	(161)	2,093	16,409	-	16,409
Foreign currency translation reserve movement		-	-	-	(147)	-	(147)	-	(147)
Asset revaluation reserve movement		-	56	-	-	(56)	-	-	-
Surplus (deficit) for the year		-	763	-	-	-	763	15	778
Total comprehensive income for the year		-	819	-	(147)	(56)	616	15	631
Acquisition of subsidiary		-	-	-	-	-	-	(10)	(10)
Transfer between reserves		-	(203)	-	203	-	-	-	-
Value of employee services		-	-	203	-	-	203	-	203
Issue of new shares	21	103	-	(103)	-	-	-	-	-
Dividends paid	23	-	-	-	-	-	-	-	-
Balance at 30 June 2013		29,084	(13,888)	100	(105)	2,037	17,228	5	17,233

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

Statements of Movements in Equity (Continued)

For the year ended 30 June 2013

Parent

		Attributable to the owners of the Parent						
	Notes	Equity $000	Retained earnings $000	Foreign currency translation reserve $000	Asset Revolution reserve $000	Total equity $000	Non-controlling interest $000	Total equity $000
Balance at 30 June 2011		27,981	(2,551)	-	-	25,430	-	25,430
Foreign currency translation reserve movement		-	-	-	-	-	-	-
Asset revaluation reserve movement		-	-	-	-	-	-	-
Deficit for the year		-	(526)	-	-	(526)	-	(526)
Total comprehensive income for the year		-	(526)	-	-	(526)	-	(526)
Issue of new shares	21	1,000	-	-	-	1,000	-	1,000
Dividends paid	23	-	-	-	-	-	-	-
Balance at 30 June 2012		28,981	(3,077)	-	-	25,904	-	25,904
Foreign currency translation reserve movement		-	-	-	-	-	-	-
Asset revaluation reserve movement		-	-	-	-	-	-	-
Deficit for the year		-	(7,343)	-	-	(7,343)	-	(7,343)
Total comprehensive income for the year		-	(7,343)	-	-	(7,343)	-	(7,343)
Acquisition of subsidiary		-	-	-	-	-	-	-
Value of employee services		-	-	-	-	-	-	-
Issue of new shares	21	103	-	-	-	103	-	103
Dividends paid	23	-	-	-	-	-	-	-
Balance at 30 June 2013		29,084	(10,420)	-	-	18,664	-	18,664

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

Statements of Cash Flows

For the year ended 30 June 2013

	Notes	Group 30 June 2013 $000	Group 30 June 2012 $000	Parent 30 June 2013 $000	Parent 30 June 2012 $000
Operating activities					
Surplus (deficit) after tax		778	(962)	(7,343)	(526)
Depreciation and amortisation		853	833	-	-
Impairment of subsidiaries		-	-	7,278	327
Deferred tax		415	(174)	(24)	(80)
Other non-cash items		190	16	-	-
Loss on sale of plant, property and equipment		-	16	-	-
Changes in working capital	25	(1,778)	2,160	233	(18)
Net cash inflow (outflow) from operating activities		458	1,889	144	(297)
Investing activities					
Cash was provided from (to):					
Proceeds from sale of property, plant and equipment		-	40	-	-
(Advances to) repayments from subsidiaries		-	-	(677)	618
Purchase of property, plant and equipment		(765)	(425)	-	-
Patents and development activities		(995)	(70)	-	-
Acquisition of subsidiary	18	(750)	-	(750)	-
Net cash (outflow) inflow from investing activities		(2,510)	(455)	(1,427)	618
Financing activities					
Cash was provided from (to):					
New borrowings		1,900	5,850	1,900	5,850
Issue of new shares		-	1,000	-	1,000
Repayment of borrowings		(857)	(7,417)	(692)	(7,152)
Net cash inflow (outflow) from financing activities		1,043	(567)	1,208	(302)
Net (decrease) increase in cash held		(1,009)	867	(75)	19
Cash at beginning of the year		648	(219)	45	26
Effect of exchange rate changes		24	-	-	-
Cash and bank balances at the end of the year	11	(337)	648	(30)	45

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

Notes to the Financial Statements
For the year ended 30 June 2013

1. General information

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

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

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

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

The financial statements have been approved for issue by the Board of Directors on 29 August 2013.

2. Summary of significant accounting policies

(a) Basis of preparation

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

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

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

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

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

Historical cost convention and going concern assumption
These financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of land and buildings, and financial assets and financial liabilities (including derivative financial instruments) at fair value through the statement of comprehensive income. The Group is compliant with its covenants which are currently tested quarterly and is forecasting to remain compliant. Accordingly, the directors believe that it is appropriate to prepare the accounts on a going concern basis.

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mercer Group Limited as at 30 June 2013 and the results of subsidiaries for the year then ended.

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

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

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

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

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

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

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

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

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

(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 statement of comprehensive income.

(iii) Group companies

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

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

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

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

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

(e) Revenue recognition

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

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

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

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

For fixed price contracts, the stage of completion is measured by reference to costs incurred to date as a percentage of estimated total contract costs for each contract. Revenue from cost plus contracts is recognised by reference to the recoverable costs

incurred during the reporting period plus the percentage of fees earned. The percentage of fees earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

(iii) Grants

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions.

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

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

(iv) Interest income

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

(v) Dividend income

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

(vi) Royalty income

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

(f) Income tax

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

(g) Goods and Services Tax (GST)

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

(h) Leases

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

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

(i) Impairment of non-financial assets

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(j) Cash and cash equivalents

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

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method less provision for impairment.

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

(l) Inventories

(i) Raw materials and finished goods

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

(ii) Contract work in progress

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

(m) Investments and other financial assets

Investments

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

Financial assets at fair value through profit and loss

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

Loans and receivables

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

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

(n) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. Changes in the fair value of derivative instruments are recognised immediately in the statement of comprehensive income. Derivatives are recognised on trade date and derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.`

(o) Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market (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. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

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

- Buildings	3%
- Plant and equipment	5.5% – 67%

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

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

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

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

(ii) Research and development

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

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

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

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

Other development 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.

Development costs recognised as an asset are amortised over their useful economic lives.

(iii) Patents, trademarks and licences

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

(r) Trade and other payables

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

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

(s) Borrowings and borrowing costs

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

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

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

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

(t) Provisions

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

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

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) Contributed equity

Ordinary shares are classified as equity.

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

(v) Employee benefits

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

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance date on national government

bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Short-term employee benefits

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

(w) Dividends

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

(x) Earnings per share

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

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

(y) Discontinued operations

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

(z) Share based payments

The Group operates a share-based compensation plan under which it receives services from employees as consideration for equity instruments in the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount expensed is determined by reference to the fair value of the equity instruments granted. Employee tax obligations payable by the Group in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

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

(aa) Changes in accounting policies

There have been no significant changes in accounting policies from those applied by the Group in the financial statements as at 30 June 2013.

(ab) New standards and amendments

The following are the new standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2012 and which are relevant to the Group. These amendments have not resulted in material accounting or disclosure changes for the Group.

NZ IAS 1 Amendments Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This has not affected the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2013

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

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

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

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

NZ IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group and parent entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

Amendments to NZ IAS 28 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

NZIFRS 13 Fair Value Measurement (effective 1 January 2013)

NZIFRS 13 explains how to measure fair values and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. However the application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

NZ IFRS 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2015)

NZIFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. There will be no impact on the Group's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from NZ IAS 39 Financial Instrument: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt NZ IFRS 9.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014 and in the case of NZ IFRS 9 for the annual reporting period ending 30 June 2016.

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

Notes to the Financial Statements (Continued)
For the year ended 30 June 2013

3. Critical accounting estimates and judgements

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

Intangible Assets

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

Work in Progress

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

Deferred Tax Asset

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

Impairment Testing

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

4. Financial risk management

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

The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain foreign currency risk exposures. Derivatives are exclusively used for hedging purposes (while hedge accounting is not applied as the Group does not meet the hedge accounting criteria), 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.

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

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

	Loans and receivables $000	Financial assets at fair value through profit and loss $000	Financial liabilities at fair value through profit and loss $000	Other financial liabilities $000
Group 2013				
Cash and cash equivalents	307	-	-	-
Trade and other receivables	6,582	-	-	-
Derivative financial instruments	-	-	-	-
Trade and other payables	-	-	-	6,872
Borrowings and overdraft	-	-	-	6,981
	6,889	-	-	13,853
Group 2012				
Cash and cash equivalents	648	-	-	-
Trade and other receivables	6,144	-	-	-
Derivative financial instruments	-	-	-	17
Trade and other payables	-	-	-	5,817
Borrowings and overdraft	-	-	-	4,967
	6,792	-	-	10,801
Parent 2013				
Cash and cash equivalents	-	-	-	-
Other receivables	8	-	-	-
Advances to subsidiaries	21,644	-	-	1,428
Other payables	-	-	-	275
Borrowings and overdraft	-	-	-	6,088
	21,652	-	-	7,791
Parent 2012				
Cash and cash equivalents	45	-	-	-
Other receivables	64	-	-	-
Advances to subsidiaries	28,546	-	-	1,428
Other payables	-	-	-	147
Borrowings and overdraft	-	-	-	6,278
	28,655	-	-	7,853

(a) Market risk

(i) Foreign exchange risk

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

Group - $000		+10% and $000		-10% and $000	
	Foreign Currency amount assets (liabilities)	Post tax profit increase (decrease)	Equity	Post tax profit increase (decrease)	Equity
30 June 2013	1,594	(115)	-	115	-
30 June 2012	(182)	13	-	(13)	-

Parent - $000		+10% and $000		-10% and $000	
	Foreign Currency amount assets (liabilities)	Post tax profit increase (decrease)	Equity	Post tax profit increase (decrease)	Equity
30 June 2013	-	-	-	-	-
30 June 2012	-	-	-	-	-

Concentrations of foreign currency exposure

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

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	**30 June 2013 $000**	30 June 2012 $000
Cash				
Australian dollar	296	224	-	-
Trade receivables				
Australian dollar	1,359	199	-	-
United States dollar	197	-	-	-
Canadian dollar	441	-	-	-
Euro	6	-	-	-
Other	-	322	-	-
Trade payables				
Australian dollar	(256)	(141)	-	-
United States dollar	(184)	(20)	-	-
Euro	-	(27)	-	-
Canadian dollar	(134)	-	-	-
Other	(131)	-	-	-
Derivative financial instruments (notional amounts)				
Australian dollar	-	(765)	-	-
Other	-	26	-	-
	1,594	(182)	-	-

(ii) Cash flow and fair value interest rate risk

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

Mercer Group Limited can enter into interest rate swaps and forward rate agreements to manage its interest rate risk although no such instruments are in place at balance date (2012: Nil).

The following table shows the sensitivity of the Group and Company's after tax profit and equity to a movement in interest rates of +/-1 percentage point (pp) which the directors consider reasonably possible. The total amount of interest bearing debt at balance date of the Group on which interest is not fixed is $6,702,000 (2012: $4,850,000) and $6,088,000 for the Company (2012: $4,850,000). The table assumes no additional borrowing, no repayments and a tax rate of 28% (2012: 28%).

Group	$000	+1pp and $000		-1pp and $000	
	Carrying amount	Post tax Profit	Equity	Post tax Profit	Equity
Financial liabilities					
30 June 2013	6,702	(48)	-	48	-
30 June 2012	4,967	(35)	-	35	-

Parent	$'000	+1pp and $000		-1pp and $000	
	Carrying amount	Post tax Profit	Equity	Post tax profit	Equity
Financial liabilities					
30 June 2013	6,088	(44)	-	44	-
30 June 2012	4,850	(35)	-	35	-

(b) Credit risk

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

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

At 30 June 2013 the Group had exposure to one significant debtor which amounted to $658,000. Subsequent to year end this debtor settled its account in full.

The Parent has credit exposure to intercompany advances. The maximum exposure to credit risk is represented by the carrying amount of these assets: refer to Note 18.

(c) Liquidity risk

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

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

- Hire purchase agreements whereby $221,000 (2012: $nil) are due between 2 and 5 years.
- Bank debt whereby $5,283,000 (2012: $4,250,000) are due between 2 and 5 years.

Contingent liabilities disclosed in note 26 amount to $2,435,000 (2012: $2,781,000) for the Group and $2,235,000 (2012: $2,741,000) for the Parent. If these amounts become payable, the liabilities will fall due in less than 12 months.

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

	Less than one year $000	Between one and two years $000	Between two and five years $000	Over five years $000
Group				
30 June 2013				
Borrowing excluding finance lease liabilities	**1,041**	**999**	**5,207**	-
Trade and other payables	**5,955**	**-**	**-**	-
Total	**6,996**	**999**	**5,207**	**-**
Group				
30 June 2012				
Borrowing excluding finance lease liabilities	871	836	3,738	-
Derivative financial instruments (net settled)	17	-	-	-
Trade and other payables	4,965	-	-	-
Total	5,853	**836**	**3,738**	**-**
Parent				
30 June 2013				
Borrowing excluding finance lease liabilities	**1,041**	**999**	**5,207**	-
Intercompany advance	**1,428**	**-**	**-**	-
Trade and other payables	**516**	**-**	**-**	-
Total	**2,985**	**999**	**5,207**	**-**
Parent				
30 June 2012				
Borrowing excluding finance lease liabilities	650	836	3,738	-
Intercompany Advance	1,428	-	-	-
Trade and other payables	147	-	-	-
Total	2,225	836	3,738	-

(d) Capital risk management

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

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

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Equity $000	**17,233**	16,409	**18,664**	25,904
Total assets $000	**31,086**	27,210	**26,455**	32,329
Equity ratio	**55.4%**	60.3%	**70.5%**	80.1%

The Group is subject to the following covenants in relation to the bank loans detailed in note 20:

- Ratio of shareholder funds to tangible assets
- Ratio of earnings to consolidated funding costs
- Ratio of earnings to consolidated debt servicing costs

The Group is compliant with its covenants which are currently tested quarterly and is forecasting to remain compliant.

(e) Fair value hierarchy

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

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

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

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

5. Segment information

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

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

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

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

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

Notes to the Financial Statements (Continued)
For the year ended 30 June 2013

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

	30 June 2013 $000			30 June 2012 $000		
	Total sales revenue	Segment result (EBITDA)	Segment assets	Total sales revenue	Segment result (EBITDA)	Segment assets
Stainless Fabrication	28,080	3,227	7,808	21,067	1,048	5,260
Mercer Interiors	8,150	279	6,711	8,578	15	7,213
Mercer Medical	2,679	168	1,335	3,895	177	1,137
Corporate	-	(1,173)	15,232	30	(1,143)	13,600
Intersegment eliminations	(148)	-	-	(284)	-	-
Total sales, EBITDA, assets	**38,761**	**2,501**	**31,086**	33,286	97	27,210
Depreciation and amortisation	-	(853)	-	-	(833)	-
Finance costs	-	(453)	-	-	(400)	-
Income tax (charge) credit	-	(415)	-	-	174	-
Share of (losses) of associate	-	(2)	-	-	-	-
Total Group	**38,761**	**778**	**31,086**	33,286	(962)	27,210

One Stainless Fabrication customer contributed $5,173,000 (2012: $4,241,000) of revenue in the year ended 30 June 2013. Another contributed $5,840,000 (2012: nil) of revenue in the year ended 30 June 2013. No other customer's revenues have exceeded 10% of total revenues in either year.

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

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

	30 June 2013 $000	30 June 2012 $000
Stainless Fabrication	258	286
Mercer Interiors	304	288
Mercer Medical	20	28
Corporate	271	231
	853	833

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

	30 June 2013 $000	30 June 2012 $000
New Zealand	15,098	12,327
Australia	153	237
Total	**15,251**	12,564

6. Sale of goods and contract revenue

	30 June 2013 $000	30 June 2012 $000
Group		
Sale of goods	10,468	10,803
Construction contract revenue	28,293	22,483
Total	38,761	33,286

7. Other income

	30 June 2013 $000	30 June 2012 $000
Group		
Other	12	24
Total	12	24
Parent		
Interest income	611	603
Total	611	603

8. Other expenses

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

	30 June 2013 $000	30 June 2012 $000
Group		
Foreign exchange (gains) losses	(115)	25
(Gain) Loss on disposal of property, plant and equipment	(3)	12
Advertising	327	143
Bad debts written off (note 12)	69	34
Communication costs	204	265
Electricity costs	211	224
Employee on-costs	444	442
Insurance	381	326
Vehicle expenses	265	248
Impairment of inventories (note 14)	(5)	16
Directors fees	177	199
Repairs and maintenance	703	522
Research and development	19	21
Restructuring costs	-	250
Subcontractors	264	297
Travel and accommodation	546	352
Fees paid to Auditors		
Audit	96	105
Taxation services	10	10
Other expenses	1,396	1,068
	4,989	4,559
Parent		
Impairment of subsidiaries (note 18)	7,278	326
Directors fees	177	199
Fees paid to Auditors		
Audit	23	46
Taxation services	10	10
Other expenses	172	305
	7,660	886

Restructuring costs in 2012 comprise replacement and recruitment costs of management.

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

9. Salaries and wages

Salaries and wages include the following amounts that have been recovered into labour for internally generated development assets $210,777 (2012: $130,669).

10. Income tax

	30 June 2013 $000	30 June 2012 $000
Group		
(a) Income tax charge (credit)		
Current tax	-	-
Deferred tax (Note 17)	415	(174)
	415	(174)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Surplus (deficit) before tax expense	1,193	(1,136)
Expenditure not deductible for tax	27	17
Surplus (deficit) subject to tax	1,220	(1,119)
Tax at the New Zealand tax rate of 28%	342	(313)
Underestimation in prior year	(5)	8
Recognise deferred tax on buildings	16	16
Current year tax losses in Australia not recognised	62	115
Income tax charge (credit)	415	(174)
Parent		
(a) Income tax credit		
Current tax	-	-
Deferred tax (note 17)	(24)	(80)
	(24)	(80)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Deficit before tax expense	(7.367)	(606)
Dividends received	-	-
Impairment of investments in subsidiaries	7,278	327
Other expenditure not deductible for tax	-	(6)
Deficit subject to tax	(89)	(285)
Tax at New Zealand tax rate of 28%	(24)	(80)
Income tax credit	(24)	(80)

(c) Unrecognised deferred tax balances

At 30 June 2013 there were $9,621,000 (2012: $9,396,000) of unrecognised tax losses, representing a tax benefit of $2,887,000 (2012: $2,819,000). Unrecognised deferred tax balances represent tax losses in Australia that have not been recognised due to the lack of probability that future taxable income will be available.

(d) Imputation credit account

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Credits available to shareholders of the company	-	-	-	-

Notes to the Financial Statements (Continued)

For the year ended 30 June 2013

11. Cash and bank balances

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Cash at bank and in hand	307	648	-	45
Total cash and bank balances	307	648	-	45
Less bank overdrafts	(644)	-	(30)	-
Cash and cash equivalents per cash flow statement	(337)	648	(30)	45

12. Accounts receivable, other debtors and prepayments

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Current				
Trade receivables	2,328	2,638	-	-
Less provision for doubtful receivables	(70)	(32)	-	-
Construction contract receivables	3,735	3,373	-	-
Less provision for doubtful receivables	(68)	(54)	-	-
Total accounts receivable	5,925	5,925	-	-
Other debtors and prepayments				
Total other debtors	147	219	8	64
Receivable from Associate (note 28(f))	428	-	-	-
Prepayments	82	155	-	-
Total other debtors and prepayments	657	374	8	64
Impairment provision				
Provision for doubtful debts at 1 July	(86)	(138)	-	-
(Increase) / Decrease in provision	(121)	18	-	-
Bad debts written off	69	34	-	-
Provision for doubtful debts at 30 June	(138)	(86)	-	-
Due and impaired receivables				
Impaired receivables				
1 to 3 months	-	-	-	-
Over 3 months	137	86	-	-
	137	86	-	-
Due but not impaired receivables				
1 to 3 months	1,500	1,622	-	-
Over 3 months	341	75	-	-
	1,841	1,697	-	-

All trade receivables, other debtors and prepayments are expected to mature within 12 months of balance date. The receivable from associate is expected to mature as follows $60,000 within 12 months of balance date and $368,000 between 2 and 5 years of balance date. Management considers that receivables past due, but not impaired, are fully collectible in the ordinary course of business.

Trade receivables includes retentions of $604,000 (2012: $275,000).

Notes to the Financial Statements (Continued)

For the year ended 30 June 2013

13. Derivative financial instruments

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Forward foreign exchange contracts				
Assets	-	-	-	-
Liabilities	-	(17)	-	-
Total	-	(17)	-	-
Expected maturity				
Within 12 months	-	(17)	-	-
Later than 12 months	-	-	-	-
Total	-	(17)	-	-

The Group enters into forward foreign exchange rate contracts to hedge foreign currency risk exposures on trade accounts receivable and accounts payable. At balance date the Group held no (2012: four) forward foreign exchange contracts for a total notional amount of $nil (2012: $1,000,000).

14. Inventories

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Construction contracts				
Total aggregate costs incurred and recognised profits (less recognised losses) to date	4,309	5,623	-	-
Less: progressive billings	(4,458)	(5,937)	-	-
Net balance sheet for ongoing contracts	(149)	(314)	-	-
Raw materials and components	851	1,143	-	-
Finished goods	4,660	2,503	-	-
Total inventories	5,362	3,332	-	-

The cost of inventories recognised as impaired and included in cost of inventory sold amounted to $5,000 credit (2012: $14,000 expense).

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

15. Property, plant and equipment

	Freehold land $000	Buildings $000	Plant, and equipment $000	Total $000
Group				
At 1 July 2011				
Cost/Valuation	1,557	3,743	14,466	19,766
Accumulated depreciation	-	(227)	(10,203)	(10,430)
Net book value	1,557	3,516	4,263	9,336
Year ended 30 June 2012				
Opening net book amount	1,557	3,516	4,263	9,336
Additions	-	-	480	480
Impairment	-	-	-	-
Effect of exchange rate movements	-	-	-	-
Depreciation	-	(122)	(688)	(810)
Disposals	-	-	(79)	(79)
Closing net book amount	1,557	3,394	3,976	8,927
At 30 June 2012				
Cost/Valuation	1,557	3,743	14,867	20,167
Accumulated depreciation	-	(349)	(10,891)	(11,240)
Net book value	1,557	3,394	3,976	8,927
Year ended 30 June 2013				
Opening net book amount	1,557	3,394	3,976	8,927
Additions	-	-	785	785
Acquisition of new business (note 18)	-	-	98	98
Transfers from inventory	-	-	160	160
Effect of exchange rate movements	-	-	(10)	(10)
Depreciation	-	(115)	(708)	(823)
Disposals	-	-	(8)	(8)
Closing net book amount	1,557	3,279	4,293	9,129
At 30 June 2013				
Cost/Valuation	1,557	3,743	15,191	20,491
Accumulated depreciation	-	(464)	(10,898)	(11,362)
Net book value	1,557	3,279	4,293	9,129

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

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

Included in plant and equipment are assets with a cost of $ nil (2012: $303,000) and a net book value of $nil (2012: $89,000), which are subject to hire purchase agreements.

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

	30 June 2013 $000	30 June 2012 $000
Cost	2,920	2,920
Accumulated depreciation	(751)	(695)
Net book value	**2,169**	**2,225**

The parent has no plant, property and equipment.

16. Intangible assets

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$'000	$'000
Goodwill				
Cost	6,337	5,313	-	-
Impairment charges	(2,614)	(2,614)	-	-
Net book amount	3,723	2,699	-	-
Opening balance	2,699	2,699	-	-
Acquisition of subsidiary (note 18)	1,024	-	-	-
Closing balance	3,723	2,699	-	-
Acquired patents, trademarks and licences				
Cost	623	590	-	-
Accumulated amortisation and impairment charges	(377)	(358)	-	-
Net book amount	246	232	-	-
Opening balance	232	212	-	-
Additions	33	28	-	-
Amortisation	(19)	(8)	-	-
Closing balance	246	232	-	-
Internally generated development assets				
Cost	3,300	2,209	-	-
Accumulated amortisation and impairment charges	(1,515)	(1,504)	-	-
Net book amount	1,785	705	-	-
Opening balance	704	678	-	-
Additions	1,092	42	-	-
Amortisation	(11)	(15)	-	-
Closing balance	1,785	705	-	-
Total intangible assets	5,754	3,637	-	-

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

	30 June 2013	30 June 2012
	$000	$000
Mercer Interiors	2,699	2,699
Stainless Fabrication (note 18)	1,024	-
Total	3,723	2,699

On an annual basis, the recoverable amount of the goodwill is determined based on value in use calculations for the cash generating unit that the intangible relates to. These calculations use cash flow projections based on management budgets. The goodwill allocated to Mercer Interiors relates to the acquisition and subsequent integration of Duratech Wholesale Limited in 2008. The goodwill allocated to Mercer Stainless relates to the acquisition and subsequent integration of Titan Slicers Limited in July 2012.

Goodwill has been tested for impairment in June 2013. Each business unit which carries goodwill has prepared a discounted cash flow on a value-in-use basis using past experience of sales, growth, operating costs and margin, and external sources of information where appropriate to determine their expectations of the future. Cash flows beyond five years have been extrapolated using estimated terminal growth rates which do not exceed the long term growth rate for the industries in which the business units operate. The terminal growth rates used are 3% (2012: 3%). The cashflows are discounted at a nominal rate of 13% (2012: 13%). The valuation models used are most sensitive to changes in the terminal year earnings and cash flows.

The average growth in revenues used in the impairment calculation for Mercer Interiors is 8%. The goodwill would start to be impaired if the growth was less than 7%; or the discount rate greater than 14%.

17. Deferred tax asset

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Group				
Balance at 1 July 2011	(982)	1,152	4,055	4,225
Amounts credited to the foreign currency reserve	-	-	(32)	(32)
Amounts credited to the statement of comprehensive income	-	205	(31)	174
Balance at 30 June 2012	(982)	1,357	3,992	4,367
Balance at 1 July 2012	(982)	1,357	3,992	4,367
Amounts credited to the asset revaluation reserve	16	(16)	-	-
Amounts charged to the statement of comprehensive income	48	(320)	(143)	(415)
Balance at 30 June 2013	**(918)**	**1,021**	**3,849**	**3,952**

Other Temporary Differences arise from provisions for working capital. $350,000 (2012: $672,000) of the deferred tax asset is expected to be realised over the next 12 months.

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Parent				
Balance at 1 July 2011	-	-	1,669	1,669
Amounts credited to the statement of comprehensive income	-	-	80	80
Balance at 30 June 2012	-	-	1,749	1,749
Balance at 1 July 2012	-	-	1,749	1,749
Amounts credited to the statement of comprehensive income	-	-	24	24
Balance at 30 June 2013	-	-	**1,773**	**1,773**

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

18. Investment in subsidiaries and associates

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

Name of entity	Activities	Location	% ownership 2013	% ownership 2012
Subsidiaries				
Mercer Stainless Limited	Stainless steel fabricator and equipment manufacture; manufacturer / distributor of kitchen, bathroom and laundry products; and distributor of medical products	New Zealand	100%	100%
Mercer Technologies Limited	Holds Intellectual Property	New Zealand	100%	100%
Mercer Middle East Limited	Distributor of medical equipment and products. This business was closed in 2010	New Zealand	100%	100%
Mercer Products Pty Limited	Distributor of kitchen products	Australia	100%	100%
Mercer Technologies Pty Limited	Supply of stainless steel products	Australia	100%	100%
Mercer Stainless Pty Limited	Stainless steel fabricator and equipment manufacture. This business was closed in 2012	Australia	100%	100%
Old HEP Limited	Formerly, a distributor of photographic equipment. This business was sold in 2009	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	Stainless steel equipment sales and service	United States	100%	-
Titan Slicer Limited	Stainless steel equipment sales and service	New Zealand	75%	-
Associate				
Titan Design Limited	Intellectual Property company	New Zealand	25%	-

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

	30 June 2013 $000	30 June 2012 $000
Shares at cost	18,950	17,845
Less impairment	(15,920)	(15,920)
	3,030	1,925
Advances to subsidiaries	34,711	34,335
Less impairment	(13,067)	(5,789)
	21,644	28,546
Total Investments	24,674	30,471

Investments in, and advances to, subsidiaries are recorded at cost less impairment charges. During the year the investments in, and advances to, Old HE Perry Limited, Mercer Technologies Limited, Duratech Wholesale Limited and Kuaka Holdings Limited, the holding company of Mercer Stainless Pty Limited which ceased trading in 2012 were impaired by $7,278,000 (2012: $327,000), reflecting a write down to the greater of the net assets of the subsidiary company or the recoverable amount based on value in use.

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Acquisition of subsidiary

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

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

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

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

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

Investment in associate

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

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

	30 June 2013 $000
Assets	427
Liabilities	(439)
Net assets	(12)

19. Trade and other payables

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Trade creditors	4,692	3,479	-	-
Deferred consideration payable	221	-	221	-
Sundry creditors and accruals	1,042	1,486	54	147
Total creditors and accruals	**5,955**	4,965	**275**	147

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

Bank overdrafts

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

20. Borrowings

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Bank loans	6,058	4,850	6,058	4,850
Hire purchase loans	279	117	-	-
Advance from a subsidiary	-	-	1,428	1,428
Total borrowings	**6,337**	4,967	**7,486**	6,278
Expected maturity within one year	775	600	2,128	2,028
Later than one year	5,562	4,367	5,358	4,250
	6,337	4,967	**7,486**	6,278

Bank loans

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

The Group has secured banking facilities with BNZ to November 2014. These comprise:

- A committed cash advance facility of $4,000,000
- A loan facility of $3,400,000 with repayments of $50,000 per month falling due from April 2013; and
- A loan facility of $433,333, with repayments of $8,333 per month falling due from April 2013.

The total amount is $7,833,333 at 30 June 2013, interest on the committed cash advance facility is 5.3% (2012: 5.3%) and the interest rate on the loan is 6.2% (2012: 6.4%). In addition the Group has an overdraft facility of $1,000,000 at 30 June 2013. There was $1,600,000 of the committed cash advance facility undrawn at 30 June 2013 (2012: nil). There is a line fee of 1% on the committed cash advance facility.

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

Hire purchase loans

Non bank hire purchase loans have fixed interest charged at 7.83% (2012: 11.52%).

The total minimum lease payments were as follows:

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Less than one year	58	117	-	-
Between two and five years	221	-	-	-
Over five years	-	-	-	-
Present value of future liability	**279**	117	**-**	-
Add: future interest	49	13	-	-
Total minimum lease payments	**328**	130	**-**	-

21. Contributed equity

	Shares		$000	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Parent and Group				
Issued and fully paid up capital	**239,965,716**	237,322,491	**29,069**	28,981
Balance at beginning of the year	**237,322,491**	219,140,673	**28,981**	27,981
Shares issued during the year	2,373,225	18,181,818	103	1,000
Balance at end of year	**239,695,716**	237,322,491	**29,084**	28,981

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

In 2012, Mr R Shepherd, Chief Executive Officer, exercised 18,181,818 share options which raised $1,000,000. There are a total of 32,563,025 share options at an exercise price of between $0.07 and $0.085 per share which can be exercised in 2014.

Mr R Shepherd is also entitled to 1% of the shares after the AGM on the first, second and third anniversary of his appointment and in 2013 Mr R Shepherd was issued 2,373,325 shares in accordance with Note 28.

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

22. Retained earnings and other reserves

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Foreign currency translation reserve				
Balance at beginning of the year	(161)	(115)	-	-
Transfer from retained earnings	203	-	-	-
Net exchange difference on translation of overseas subsidiaries	(147)	(46)	-	-
Balance at the end of the year	**(105)**	(161)	-	-
Share based payments reserve				
Balance at beginning of the year	-	-	-	-
Value of employee services	203	-	-	-
Transfers to equity	(103)	-	-	-
Balance at the end of the year	**100**	-	-	-
Asset revaluation reserve				
Balance at beginning of the year	2,093	2,149	-	-
Transfer to retained earnings	(56)	(56)	-	-
Balance at the end of the year	**2,037**	2,093	-	-
Retained earnings				
Balance at beginning of the year	(14,504)	(13,598)	(3,077)	(2,551)
Surplus (deficit) for the year	763	(962)	(7,343)	(526)
Transfer from asset revaluation reserve	56	56	-	-
Transfer from foreign currency translation reserve	(203)	-	-	-
Value of employee services	-	-	-	-
Issue of new shares	-	-	-	-
Balance at the end of the year	**(13,888)**	(14,504)	**(10,420)**	(3,077)

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.

23. Dividends

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	Cents	Cents
	Total dividend		Dividend per share	
No dividend was paid or declared (2012 Nil).	-	-	-	-

24. Earnings per share

Basic and diluted

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

Diluted earnings per share are calculated by dividing the profit 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 weighted average of the dilutive potential of ordinary shares as a result of warrants on issue, and the issue of share options where the weighted average market price of ordinary shares during the period exceeds the exercise price of the option.

	30 June 2013	30 June 2012
Weighted average number of ordinary shares in issue:		
Basic	238,843,956	221,730,959
Diluted	311,448,158	287,540,238
Surplus (deficit) attributable to the shareholders of the Company ($000)	763	(962)
Basic earnings per share	0.31 cents	(0.43 cents)
Diluted earnings per share	0.24 cents	(0.33 cents)

25. Change in working capital

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

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Trade creditors and accruals	606	(818)	177	(18)
Trade debtors and prepayments	(282)	1,600	56	(5)
Inventory	(2,111)	1,413	-	-
Other	9	(35)	-	5
Total	(1,778)	2,160	233	(18)

26. Contingent liabilities

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

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Guarantee to bankers of bank overdraft facilities for subsidiaries to a limit of	1,000	1,000	1,000	1,000
Guarantee to bankers for credit card facilities up to a limit of	200	95	-	55
Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise	1,235	1,686	1,235	1,686
	2,435	2,781	2,235	2,741

The Group has a contingency in respect of litigation threatened by a former supplier. The Group is defending the claim and believe that the Group will be successful in defending this claim and it is not anticipated that any material liabilities will arise.

27. Commitments

	Group		Parent	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Capital commitments				
Estimated commitments contracted for at balance date but not provided for	39	250	-	-
Operating lease commitments				
Non-cancellable				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows				
Within one year	1,023	1,012	-	-
Later than one year but not later than five years	1,613	1,462	-	-
Later than five years	625	564	-	-
	3,261	3,038	-	-

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

28. Related party transactions

(a) Directors

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

(b) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2013 and the year ended 30 June 2012 is set out below. The key management personnel are all the directors of the company and the executives with the greatest authority for the strategic direction and management of the company.

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Short term benefits	1,462	1,473	177	199
Long term benefits	13	31	-	-
Equity based payments	254	101	-	-
Total	**1,729**	1,605	**177**	199

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

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

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

	Interest paid or payable 30 June 2012 $000
Gresham Finance Limited, a company associated with HJD Rolleston, a director and substantial security holder	22
Rakaia Finance Ltd, a company associated with R Rookes, a director	22
The Hewitson Family Trust, a trust associated with P Hewitson, a director	9
RD and TR Shepherd Ltd, a company associated with R Shepherd, Chief Executive Officer	4
Total	**57**

(d) Equity instruments

(i) Share options

At 30 June 2013 and 2012 Mr R Shepherd, Chief Executive Officer, has options to purchase:

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

Mr R Shepherd exercised options to purchase 18,181,818 shares on 9 May 2012 following a meeting of the Shareholders which authorised these options to be purchased before the vesting date, being 2 February 2013.

At 30 June 2013 and 2012 Mr T Blathwayt, Chief Financial Officer, has options to purchase:

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

(ii) Other shares

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

The weighted average fair value of shares and options was determined based on an equity valuation of the business at the date these arrangements were entered into. The significant inputs into the model at the date of the share based arrangements were an assumed equity value of $8.2 million, weighted average cost of capital of 13% and on the total number of fully diluted shares at that time. For the share options volatility, was determined based on industry norms, of 30%. The total amount recognised in the Statement of comprehensive income was $254,000 (2012: $101,000).

(e) Transactions with other related parties

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Income				
Interest charged to subsidiaries	-	-	611	603
Dividends received	-	-	-	-
Expenses				
Accounting fees incurred	-	-	47	56
Cash flows				
Advances to subsidiaries	-	-	(677)	-
Repayments from subsidiaries	-	-	-	618
Operating receipts from subsidiaries	-	-	611	633

(f) Operating payments to subsidiaries

	Group		Parent	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Subsidiaries				
Advances owed from subsidiaries	-	-	35,039	33,987
Advances owed to subsidiaries	-	-	(1,428)	(1,428)
Other amounts owed by subsidiaries	-	-	-	-
Associates				
Advances owed from associates	428	-	-	-
Amounts owed to non-controlling interest	(35)	-	-	-

As disclosed in note 18, advances to subsidiaries were impaired by $7,278,000 (2012: $327,000). No other amounts have been written off or forgiven during the year. (2012: Nil).

During the year the Group recharged the Associate $428,000 for payments made to purchase intangible assets.

(g) Terms and conditions of related party transactions

Subsidiary advances

Advances due to and from subsidiaries are unsecured and repayable on demand. However, at balance date the parent company had no intention to demand repayment within the next 12 months. The interest rate applicable in the twelve month period to 30 June 2013 was 7.5% (2012: 7.5%).

Advances to associates

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

Notes to the Financial Statements (Continued)
For the year ended 30 June 2013

29. Share based payments

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

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

	30 June 2013		30 June 2012	
	Average exercise price in cents per share option	Options (000)	Average exercise price in cents per share option	Options (000)
At 1 July	7.67	32,563	-	-
Granted	-	-	7.00	50,745
Forfeited	-	-	-	-
Exercised	-	-	5.50	18,182
Expired	-	-	-	-
At 30 June	**7.67**	32,563	**7.67**	32,563

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

Grant-date	Vesting expiry date	Exercise price in cents per share Option	Shares (000) 2013	Shares (000) 2012
November 11 / January 12	2 February 2014	7.00	**17,857**	17,857
November 11 / January 12	2 December 2014	8.50	**14,706**	14,706
			32,563	32,563

Other share based payments are described in note 28.

30. Subsequent events

There are no subsequent events.

Mercer Group Limited

Independent Auditors' Report

Independent Auditors' Report

to the shareholders of Mercer Group Limited

Report on the Financial Statements

We have audited the financial statements of Mercer Group Limited ("the Company") on pages 26 to 66, which comprise the statements of financial position as at 30 June 2013, the statements of comprehensive income, statements of movements in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2013 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

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Opinion

In our opinion, the financial statements on pages 26 to 66:

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

(ii) comply with International Financial Reporting Standards ; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2013, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2013:

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

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

Restriction on Distribution or Use

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

PricewaterhouseCoopers

Chartered Accountants　　　　Auckland
29 August 2013