



NEWS RELEASE dated 29/2/12

**MERCER GROUP LIMITED
FINANCIAL RESULTS for the 6 MONTHS ENDED
31 DECEMBER 2011**

Mercer Group today announced its unaudited interim results for the 6 months ended 31 December 2011. The group recorded a net deficit after tax of \$1.1m which is better than the \$1.6m deficit for the corresponding period last year.

During the period, Mercer has significantly restructured its business, and included in the result is \$0.4m of restructuring and one-offs and \$0.6m of losses from Australia before the restructuring which commenced on 30th September 2011.

Normalised EBITDA (Operating earnings before interest, tax and depreciation from the ongoing business) was a much improved positive \$0.5m from a loss of \$0.8m last year. Revenue was \$16.6m versus \$16.0m in the prior period. For further information please see the financial attachment.

The continuing businesses comprise:

- **Stainless Fabrication**

This division comprises the fabrication workshops in Christchurch and New Plymouth and a branch in Brisbane, Australia. The division is a fabricator of equipment, predominantly in stainless steel.

The business had a good first half with the new dairy factory at Darfield providing the backbone of work together with good sales of our proprietary PV Valves and smaller tank work.

The current order book is strong with full workshops through until June, hence we anticipate a good second half result from this division. We have increased workshop staffing by around 5% in order to accommodate this increased work.

- **Mercer Products**

This division manufactures in New Zealand and supplies sinks, basins, tubs, toilets, laminate, solid surface material and other similar products to joiners, merchants, fabricators and other manufacturers in New Zealand.

The New Zealand business has continued to be affected by the continued downturn in residential building activity and delays in the Christchurch rebuild. Despite this, the performance of the business has been unsatisfactory and we have recruited a new General Manager, Hayden Searle to lead the change.

In Australia, Mercer has recently signed a distribution agreement with Bathroom & Kitchen Supplies Pty Ltd (trading as Imperialware) which provides Mercer with greater sales presence and leverage in the Australian market. This arrangement commenced in February and we expect an uplift in sales and profitability in coming years as a result.

Mercer Products' sales of kitchen, bathroom and laundry products were \$0.7 million down on the same period last year. Although we are well positioned for the rebuild activity in Christchurch, we believe this will not have a material impact on our trading results until the next financial year.

- Mercer Medical
Mercer Medical is a division supplying equipment and related products and services for sterilization, washing and disinfection. During the period Mercer has signed new distribution agreements with leading overseas principals, including MMM Group, Dr Weigert and Warwick Sasco. The forward order book for this division is relatively strong and hence we expect a solid result for the second half. We are now working on opportunities for the following financial year, including a focus on the servicing capability which is a good opportunity and should be the backbone of this division.

Banking

The company successfully negotiated new bank facilities with BNZ, and is now covenant compliant. The company also entered into a \$1.3 million secured shareholder loan facility to be drawn down as required, \$850k was drawn down at 31 December 2011. The company expects it will start to pay down some of these loans in the coming months.

The company has recently hired Tobin Blathwayt as a full time CFO and this will further strengthen the new management team and has provided confidence to lenders.

Dividend

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

Outlook

The company believes it has now worked its way out of the loss making Australian divisions and has completed the restructuring that was needed to turn the business around. Our previous guidance of \$1m of normalised EBITDA for the 12 month period (EBITDA excluding restructuring and one-offs) and positive cash flows after excluding restructuring is still valid. The risk to the result is the performance of the Mercer Products NZ division, which is finding the current market conditions very challenging and continued delays with the Christchurch rebuild have affected our results. Offsetting this somewhat has been stronger than expected performance of the Stainless NZ fabrication division.

For further information, please contact Rodger Shepherd, Group CEO on +649 837 7540

PRELIMINARY HALF YEAR REPORT ANNOUNCEMENT		
MERCER GROUP LIMITED		
2.1	For the Half Year Ended 31 December 2011 (referred to in this report as the "current half year")	
2.2	Results for announcement to the market	
Reporting Period	Half Year to 31 December 2011	
Previous Reporting Period	Half Year to 31 December 2010	
	Amount (millions)	Percentage change
Revenue from continuing activities	16.6	4.5%
Deficit from continuing activities after tax	(1.1)	33.6%
Deficit attributable to security holders	(1.1)	33.7%
Interim / Final Dividend	Amount per security	Imputed amount per security
None	N/A	N/A
Record Date	N/A	
Dividend Payment Date	N/A	
Comments	See Press Release	

Preliminary half annual report on consolidated results (including the results for the previous corresponding half year) in accordance with Listing Rule 10.4.2.

The financial information presented has been prepared in accordance with NZ IAS 34 Interim Financial Reporting, and gives a true and fair view of the matters to which the report relates and is based on unaudited accounts.

The Listed Issuer (Mercer Group Limited) has a formally constituted Audit Committee of the Board of Directors.

2.3 (a) Earnings statement

Refer to attachment.

2.3 (b) Balance sheet

Refer to attachment.

2.3 (c) Statement of cash flows

Refer to attachment.

2.3 (d) and (e) Dividends

During the current half year, Mercer Group paid no dividends.

2.3 (f) Net tangible assets per security

Net tangible assets per ordinary security (NZ\$)

Dec 2011	Dec 2010
0.11	0.72

2.3 (g) Control of entities gained or lost during the year

Refer to Note 8 of the attachment.

2.3 (h) Associates

None.

Any other significant information

Refer news release.

Commentary on the results for the period

Refer news release.

Details of basic and diluted EPS

Expressed in cents per share

Dec 2011	Dec 2010
(0.55)	(4.17)

Segment results

Refer to attachment and press release for industry segment information.

	Unaudited 6 Months ended 31 December 2011 \$'000		Unaudited 6 Months ended 31 December 2010 \$'000	
	Total sales revenue	Segment result	Total sales revenue	Segment result
Stainless Fabrication	10,287	(99)	9,115	(1,031)
Mercer Products	4,483	(260)	5,170	45
Mercer Medical	2,177	(26)	1,713	20
Corporate	-	(633)	-	(390)
Intersegment eliminations	(350)	-	(120)	-
Deficit before finance cost	16,597	(1,018)	15,998	(1,356)
Finance costs	-	(184)	-	(489)
Income tax credit	-	118	-	212
Total continuing operations	16,597	(1,084)	15,878	(1,633)
Discontinued operations	8	3	85	2
Total Group	16,605	(1,081)	15,963	(1,631)

This report is based on unaudited accounts.

Subsequent events

Subsequent to 31st December 2011, T Blathwayt, Chief Financial Officer, was granted the option to purchase:

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

Revaluation of assets

N/A

3.2 Critical accounting policies

Refer to attachment.

3.3 Changes in accounting policies

Refer to attachment.

MERCER GROUP LIMITED

2011
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REPORT

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MERCER GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

		Unaudited 6 Months ended 31 December 2011	Unaudited 6 Months ended 31 December 2010
	Notes	\$000	\$000
Continuing operations			
Revenue	3	16,597	15,878
Cost of Sales		(8,531)	(6,978)
Gross profit		8,066	8,900
Expenses			
Salaries and wages		(5,164)	(6,155)
Rental and operating leases		(686)	(777)
Depreciation and amortisation		(422)	(600)
Restructure costs		(250)	-
Other expenses		(2,583)	(2,746)
Other income		21	22
Deficit before finance cost		(1,018)	(1,356)
Finance costs net		(184)	(489)
Deficit before taxation		(1,202)	(1,845)
Income tax credit		118	212
Deficit after tax from continuing activities		(1,084)	(1,633)
Surplus from discontinued operations		3	2
Deficit after tax attributable to shareholders	3	(1,081)	(1,631)
Other Comprehensive Income			
Asset revaluation reserve movement		-	16
Currency translation differences		(146)	235
Other comprehensive income for the year, net of tax		(146)	251
Total comprehensive income attributable to the shareholders		(1,227)	(1,380)
Basic and diluted earnings per share cents:			
Deficit per share attributable to the shareholders of the company (expressed in cents per share)			
From continuing operations		(0.55)	(4.17)
From discontinued operations		-	-
From deficit for the year		(0.55)	(4.17)

The accompanying notes on pages 6 to 15 form part of these Financial Statements.

MERCER GROUP LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	Contributed Equity \$'000	Retained Earnings \$'000	Other Reserves \$'000	Total Equity \$'000
Balance as at 1 July 2010	19,437	(4,302)	1,861	16,996
Deficit for the period	-	(1,631)	-	(1,631)
Foreign currency translation reserve movement	-	-	235	235
Asset revaluation reserve movement	-	-	16	16
Total	-	(1,631)	251	(1,380)
Balance as at 31 December 2010	19,437	(5,933)	2,112	15,616
Balance as at 1 July 2011	27,981	(13,598)	2,034	16,417
Deficit for the period	-	(1,081)	-	(1,081)
Foreign currency translation reserve movement	-	-	(146)	(146)
Total	-	(1,081)	(146)	(1,227)
Balance as at 31 December 2011	27,981	(14,679)	1,888	15,190

The accompanying notes on pages 6 to 15 form part of these Financial Statements

MERCER GROUP LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2011

	Unaudited 31 December 2011 \$000	Audited 30 June 2011 \$000
Assets		
Current assets		
Non current assets		
Property, plant and equipment	9,034	9,336
Intangible assets	3,589	3,589
Deferred tax assets	4,307	4,225
Total non current assets	16,930	17,150
Current assets		
Accounts receivable	4,995	6,846
Other debtors and prepayments	491	1,053
Derivative financial instruments	-	6
Taxation refund	1	5
Inventories	4,471	4,761
Total current assets	9,958	12,671
Total assets	26,888	29,821
Equity and liabilities		
Equity		
Ordinary shares	27,981	27,981
Other reserves	1,888	2,034
Retained deficit	(14,679)	(13,598)
Total equity	15,190	16,417
Liabilities		
Current liabilities		
Bank overdrafts	189	219
Trade and other payables	4,401	5,676
Employee entitlements	1,014	949
Derivative financial instruments	-	26
Borrowings	1,298	6,304
Total current liabilities	6,902	13,174
Non current liabilities		
Borrowings	4,796	230
Total liabilities	11,698	13,404
Total equity and liabilities	26,888	29,821

The accompanying notes on pages 6 to 15 form part of these Financial Statements.

MERCER GROUP LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	Unaudited 6 Months ended 31 December 2011 \$000	Unaudited 6 Months ended 31 December 2010 \$000
Cash flow from operating activities		
Cash receipts from customers	19,349	16,763
Cash paid to suppliers and employees	(18,383)	(16,806)
Interest on borrowings	(192)	(483)
Other interest	-	(30)
Income taxes paid	2	-
Net cash inflow (outflow) from operating activities	776	(556)
Cash flow from investing activities		
Cash was provided from:		
Purchase of property, plant & equipment	(131)	(200)
Proceeds from sale of property, plant & equipment	34	1
Purchase of intangible assets	(12)	(103)
Net cash (outflow) from investing activities	(109)	(302)
Cash flow from financing activities		
Proceeds from new borrowings	5,850	800
Repayment of borrowings	(6,466)	(123)
Net cash outflow (inflow) from financing activities	(616)	677
Net (increase) decrease in cash, cash equivalents and bank overdrafts held	52	(181)
Cash, cash equivalents and bank overdrafts held at beginning of period	(219)	(261)
Exchange	(22)	10
Cash and bank balances at end of period	(189)	(432)
Bank overdrafts	(189)	(432)
Total	(189)	(432)

The accompanying notes on pages 6 to 15 form part of these Financial Statements.

MERCER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 1

(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 7 Corban Avenue, Henderson, 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.

This unaudited consolidated financial statements for the six months ended 31 December 2011 has been prepared in accordance with IAS 34 and NZ IAS 34 'interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 June 2011, which have been prepared in accordance with NZIFRSs.

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.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZIFRS 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 2.

MERCER GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

(b) Share based payments

The group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted.

- including any market performance conditions (for example, an entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period; and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purpose of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the group revises its estimates of the number of options 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 income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are added to share capital (nominal value) and share premium.

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent liability accounts.

(c) 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 2011 except for the application of share based payment accounting policy upon the introduction of share based payments in the six months ended 31 December 2011.

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

MERCER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

(d) New standards and amendment

The following are the new standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2011 and which are relevant to the Group. These amendments have not resulted in material accounting or disclosure changes for the Group.

FRS 44: New Zealand Additional Disclosures (Effective date periods beginning on or after 1 July 2011).

Amendments to NZIFRSs to Harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments). (Effective date periods beginning on or after 1 July 2011). Harmonisation Amendments sets out to NZ IFRSs as a result of proposals that were contained in Exposure Draft 121 Proposals to Harmonise Australia and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand (ED 121) published in July 2010. It should be read in conjunction with FRS-44 New Zealand Additional Disclosures (FRS-44) which sets out the New Zealand "All Entity" disclosure standard. The effective date of the amendments is reporting periods beginning on or after 1 July 2011. Amendments to a specific standard may be individually adopted early. If an entity were to elect to early adopt any of these amendments, the entity will need to disclose that fact and will also need to early adopt any related items in FRS-44.

NZ IAS 24: Related party Disclosures (revised 2009) (Effective date periods beginning on or after 1 July 2011).

NZ IAS 34: Interim financial reporting (Effective date periods beginning on or after 1 January 2011). Provide guidance to illustrate how to apply disclosure principles in IAS-34 and add disclosure requirements around:

- The circumstances likely to affect fair values of financial instruments and their classification;
- Transfers of financial instruments between different levels of the fair value hierarchy;
- Changes in classification of financial assets; and
- Changes in contingent liabilities and assets.

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 7: Disclosures - Transfers of financial assets (Effective date periods beginning on or after 1 July 2011).

NZ IFRS 9: Financial Instruments (Effective date periods beginning on or after 1 January 2013).

NZ IFRS 10: Consolidated Financial Statements (Effective date periods beginning on or after 1 January 2013).

NZ IAS 1: Financial statement presentation – presentation of other comprehensive income (Effective date from 1 January 2012).

NZ IAS 12 (amendment): Income Tax-Deferred Tax: Recovery of Underlying Assets (Effective date periods beginning on or after 1 January 2012).

NZ IFRS 11: Joint Arrangements (Effective date periods beginning on or after 1 January 2013).

NZ IFRS 12: Disclosure of Interests in Other Entities (Effective date periods beginning on or after 1 January 2013).

NZ IFRS 13: Fair Value Measurement (Effective date periods beginning on or after 1 January 2013).

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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

NOTE 2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS require the use of certain critical accounting estimates and judgements concerning the future. The resulting estimates may not equal related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There have been no changes to critical accounting estimates and judgements as at 31 December 2011 from those applied at 30 June 2011.

MERCER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 3 Segmental Reporting

The Group is organised into the following business segments by product and services type.

Stainless Fabrication

This division includes the fabrication workshops in Christchurch and New Plymouth operated by Mercer Stainless Limited and a branch in Brisbane, Australia operated by Mercer Technologies Pty Limited. The division is a fabricator of equipment, predominantly in stainless steel.

Mercer Products

This division manufactures in New Zealand 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 is a division of Mercer Stainless Limited supplying equipment and related products and services for sterilization, washing and disinfection.

Corporate

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

	Unaudited 6 Months ended 31 December 2011 \$'000			Unaudited 6 Months ended 31 December 2010 \$'000		
	Total sales revenue	Segment result	Segment assets	Total sales revenue	Segment result	Segment assets
Stainless Fabrication	10,287	(99)	7,784	9,115	(1,031)	11,202
Mercer Products	4,483	(260)	7,799	5,170	45	10,367
Mercer Medical	2,177	(26)	320	1,713	20	1,255
Corporate	-	(633)	10,921	-	(390)	11,472
Intersegment eliminations	(350)	-	-	(120)	-	-
Finance costs	-	(184)	-	-	(489)	-
Income tax credit	-	118	-	-	212	-
Total continuing operations	16,597	(1,084)	26,824	15,878	(1,633)	34,296
Discontinued operations	8	3	64	85	2	1,359
Total Group	16,605	(1,081)	26,888	15,963	(1,631)	35,655

The segment result includes \$250,000 of restructure costs related to the replacement and recruitment of management and refinancing (\$200,000 in Corporate and \$50,000 in Mercer Products).

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NOTES TO THE FINANCIAL STATEMENTS
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Depreciation and amortisation included in the segment results disclosed above was:

	Unaudited six months ended 31 December 2011 \$000	Unaudited six months ended 31 December 2010 \$000
Stainless Fabrication	126	217
Mercer Products	173	258
Mercer Medical	16	19
Corporate	107	106
	422	600

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

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

	Unaudited six months ended 31 December 2011 \$000	Unaudited six months ended 31 December 2010 \$000
New Zealand	20,141	13,640
Australia	2,440	4,068
Total	22,581	17,708

NOTE 4 Income Tax

Numerical reconciliation of income tax credit to prima facie tax payable:

	Unaudited six months ended 31 December 2011 \$000		Unaudited six months ended 31 December 2010 \$000	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Surplus (deficit) before tax	(1,202)	4	(1,845)	3
Expenditure not deductible	-	-	6	2
Surplus (deficit) subject to tax	(1,202)	4	(1,839)	5
Tax at the New Zealand tax rate of 28%	(336)	1	(515)	1
Deferred tax on buildings	-	-	16	-
Difference due to overseas tax rates	(16)	-	(20)	-
Current Year Tax losses in Australia not recognised	234	-	307	-
Income tax (credit) charge	(118)	1	(212)	1

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

At 31 December 2011 there were \$10,426,000 (June 2011 \$9,656,000) of unrecognised tax losses, representing a tax benefit of \$3,128,000 (June 2011 \$2,897,000). Unrecognised deferred tax balances represent tax losses in Australia that have not been recognised due to the lack of certainty that future taxable income will be earned.

NOTE 5 Dividends

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

NOTE 6 Commitments

The Group had no commitments for the future capital expenditure as at 31 December 2011 amounting to (June 2011: \$Nil).

NOTE 7 Contingent liabilities

	Unaudited 31 December 2011 \$000	Audited 30 June 2011 \$000
Guarantees to bankers for bank overdraft facilities for subsidiaries to a limit of	1,000	500
Guarantees to bankers for bank guarantees issued to third parties for which it is anticipated that no material liabilities will arise	1,415	1,134
Total	2,415	1,634

There are no legal claims outstanding.

NOTE 8 Subsidiary companies

The principal trading subsidiaries at 31 December 2011, which unless otherwise disclosed are 100% owned and have a 30 June balance date, comprise:

Mercer Stainless Limited - a manufacturer & supplier of stainless steel products

Mercer Products Pty Limited – a distributor of stainless steel products.

Mercer Technologies Pty Limited - a supplier of stainless steel products, a company incorporated on 26 August 2011.

NOTE 9 Property, Plant and Equipment

During the period to 31 December 2011 the Group acquired plant and equipment with a cost of \$226,000 (2010: \$196,000).

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

MERCER GROUP LIMITED

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FOR THE HALF YEAR ENDED 31 DECEMBER 2011

- Building 3%
- Plant and equipment 5% - 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

During the six months ended 31 December 2011, the useful lives of two items of machinery were adjusted to 20 years from 12.5 years, the resulting impact was to reduce depreciation by \$88,000 in the period.

NOTE 10 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, during the vesting period.

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

	Unaudited 31 December 2011		Unaudited 31 December 2010	
	Average exercise price in cents per share option	Options ('000)	Average exercise price in cents per share option	Options ('000)
At 1 July	-	-	-	-
Granted	7.00	44,233	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
At 31 December	7.00	44,233	-	-

None of the outstanding options (2010: Nil options), none options (2010: Nil) were exercisable in either year.

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)	
			2011	2010
30 November 2011	2 February 2013	5.50	18,182	-
30 November 2011	2 February 2014	7.00	14,286	-
30 November 2011	2 December 2014	8.50	11,765	-
			44,233	-

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model.

MERCER GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

Given the lack of liquidity in the shares, based on the higher of the net asset value and discounted cash flows the significant inputs into the model were the 2012 and the 2013 Budgets, Cash flows for 2014 and beyond assume a 3% annual and terminal growth rate. The discount rate used is the weighted average cost of capital at 13%. The volatility measured at the standard deviation of continuously compounded share returns, is based on industry norms and is 30%.

NOTE 11 Related Party Transactions

(a) Directors

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

(b) Transactions with related parties

During the six months ended 31 December 2011, the Group entered into a loan facility of \$1,300,000 with certain related parties. At 31 December 2011, \$850,000 was drawn down.

Interest is charged at a rate of 12% on the drawn down balance.

Transactions with the following related parties are set out below:

	Amount drawn \$000	Interest paid or payable \$000
Gresham Finance Ltd, a company associated with HJD Rolleston, a director and a substantial security holder	327	8
Rakaia Finance Ltd, a company associated with R Rookes, a director	327	8
The Hewitson Family Trust, a company associated with P Hewitson, a director	131	3
R D and T R Shepherd Ltd, a company associated with R Shepherd, Chief Executive Officer	65	2
Total	850	21

(c) Warrants

Murray Capital Rakaia Fund Ltd Partnership has 34,371,533 warrants at an exercise price of \$0.05 per share which can be exercised before 16 December 2013 in parcels of at least 5,000,000 warrants. Any warrants not exercise by this date will expire. The fair value of warrants based on the last trading price at 30 June 2011 is 5 cents for each warrant.

MERCER GROUP LIMITED

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(d) Share options

R Shepherd, Chief Executive Officer has share entitlement equivalent to 1.00% of the total shares on issue (immediately prior to issue) on the first, second and third anniversary of appointment.

Options to purchase:

- 18,181,818 shares at \$0.055 per share on 2 February 2013;
- 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

Subsequent to 31 December 2011, T Blathwayt, Chief Financial Officer, was granted the option 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

NOTE 12 Banking and going concern

The Group has secured new banking facilities with BNZ to 30 March 2014. These comprise

- a committed cash advance facility of \$1.0 million; and
- a loan facility of \$4.0 million, with repayments of \$50,000 per month falling due from April 2012.

In addition, the Group has an overdraft facility of \$1.0 million.

The directors believe that it is appropriate to prepare the financial statements on a going concern basis.