MERCER GROUP LIMITED

Annual Report 2011

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Directors' Report

For the year ended 30 June 2011

Chairman's review

The past year of performance for the Mercer Group has failed to meet expectations of the directors and we report a disappointing underlying trading EBIT loss for the year of $3.4 million. This is slightly worse than the previous indication of negative $2.6 - 3 million due to the continued under-performance of the Australian operation, and we report a total deficit for the year ended 30 June 2011 of $9.4 million.

The core activities of the Mercer Group remain:

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

The on-going challenges inherent in the entry to the Australian market have proven a significant drain on the cash resources of the business, despite underlying potential in the range of operations we have in the New Zealand market and some specific segments within the Australian market. The New Zealand businesses recorded a positive EBITDA result but the losses in Australia were significant. An analysis of the trading results for the continuing businesses is set out in more detail later in this report.

During the last 12 months the Company has successfully organised a rights issue, raising a net $8.5 million, which has been used to strengthen the Balance Sheet and repay debt. Total borrowings have reduced from $12.3 million at 30th June 2010 to $6.5 million as at 30th June 2011. The purpose of this issue was to restore strength to the Balance Sheet of the Company and it is upon this strength that we have sought to reposition the Company for enhanced future performance.

On the retirement of Ian Farrant in May 2011, I was appointed Chairman and the Board commenced a comprehensive review of business strategy and performance. As a result of this, and the unacceptable results, a number of decisions have been made, including the decisions to:

- Appoint a new CEO, Rodger Shepherd, supported by a new part time CFO, Tobin Blathwayt;
- Restructure the Australian business described in more detail below; and
- Review all research and development projects and patents, tangible fixed assets and inventories for impairment in the context of the business' performance and future plans.

As noted in the Company's 23 December 2010 prospectus, trading results for the Mercer Stainless business in Australia have been unsatisfactory. In light of the continued poor performance of this business, the Company has revisited the earlier decision to retain the Australian operation in its current form and in September 2011 the Company commenced the implementation of a restructure of the Australian operations to re-align the business to an appropriate scale.

Following the restructure, the Group is projecting to be EBITDA positive after the first quarter of this 2012 year and is also expecting to generate positive net cash inflows from operating and investing activities of at least $1.0 million in the first year after the restructure.

The directors believe that the restructure they have initiated will provide the Company with a solid base to allow the business to focus on profitable growth and commercialization of the considerable intellectual property held by the Company. We are pleased that Rodger Shepherd has taken on the role of restructuring and refocusing the Company and his remuneration package, subject to shareholder approval, is tied to the future performance of the Company.

On 15 September the Board approved a new $1.3 million second ranking facility to be drawn down as required. As at 30 June 2011 the Company was in breach of its interest cover covenants. This has since been waived by the bank. The banking facilities expire on 31 December 2011 however the directors are confident of securing on-going funding. The directors have assessed the financial performance of the Group including forecast cash flows and are satisfied that it continues to be appropriate to prepare the financial statements on a going concern basis.

Directors' Report

For the year ended 30 June 2011

Trading Results of the Continuing Businesses

Sales revenue for continuing operations was $30.4 million compared to $36.9 million for last year. Trading performance of the Mercer businesses was:

	Sales $'million		Underlying Result 2011 $'million	Segment Result $'million	
	2011	2010	2011	2011	2011
Mercer Stainless	18.3	22.2	(2.1)	(7.2)	(1.7)
Mercer Products	9.0	10.4	(0.5)	(0.8)	0.4
Mercer Medical	3.3	4.4	-	(0.1)	0.3
Corporate	-	-	(0.8)	(1.2)	(0.7)
Eliminations	(0.2)	(0.1)	-	-	-
Subtotal	30.4	36.9	(3.4)	(9.3)	(1.7)
Finance	-	-		(0.7)	(0.9)
Tax	-	-		0.8	0.1
Continuing Operations	30.4	36.9		(9.2)	(2.5)
Discontinued Operations	0.1	0.6		(0.2)	(0.8)
Total Group	30.5	37.5		(9.4)	(3.3)

The Underlying Result is $5.9m better than the Reported Result reflecting:

- Restructure of the Australian business $4.8 million including some $2.8 million of goodwill, $0.4 million of intangible assets and $1.6 million of other write-downs and provisions;
- The Group has taken a $0.6m provision against other research and development projects and patents; and
- The Group has made an increased provision for slow moving stock of $0.5 million ($0.3 million continuing and $0.2 million discontinued) and written off fixed assets of $0.2 million.

Operations

The Mercer Stainless fabrication business comprises workshops in Christchurch, New Plymouth and Brisbane. The Brisbane workshop will be closed by the end of the first quarter of the 2012 financial year.

Sales for the New Zealand activities of Mercer Stainless were $3.5 million up on last year reflecting some recovery in dairy industry spending and the business sees this trend continuing and has a healthy order book for the new financial year.

Mercer Stainless' Australian branch's sales fell from $10.1 million to $2.6 million.

For Mercer Products, sales of kitchen, bathroom and laundry products in New Zealand and Australia were $1.4 million down on last year. The New Zealand business has been impacted by the continued reduction in residential building activity in New Zealand and we have not yet seen an improvement from the Christchurch rebuild.

Mercer Medical's sales and profit declined in 2011. We note that this business has secured new orders worth $1.3 million which will fall into the first quarter of 2012.

Dividend

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

The Board would like to acknowledge the contribution and commitment of Ian Farrant for his 25 years as Chairman of the Mercer Group and wish him well in his future endeavours.

Garry Diack

Directors' Report
For the year ended 30 June 2011

Corporate governance statement

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:

G Diack (appointed 6 May 2011)
I Farrant (resigned 6 May 2011)
SB Heal
P Hewitson
HJD Rolleston
R Rookes (appointed 21 February 2011)

In accordance with the Company's constitution, Mr Diack, Mr Hewitson 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 3.3.1A and 10.5.3(j) the directors determined that the following directors were independent directors as at 30 June 2011:

G Diack
SB Heal
P Hewitson

Mr Rolleston and Mr Rookes are not independent directors.

Committees of the Board

The Board has an Audit Committee and a Remuneration Committee. The Audit Committee comprises Messrs SB Heal, P Hewitson, and HJD Rolleston. 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 maintain 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

Pursuant to NZX Listing Rule 10.5.3(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 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 2011

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

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

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 following. 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 $13,625.

Directors' Report
For the year ended 30 June 2011

Statutory report of directors

Board of Directors

Director profiles

Garry Diack (Chairman)
Mr Diack is a non-executive director and was appointed to the Board on 6 May 2011.

Matters entered in the interests register:
Mr Diack had declared directorships at 30 June 2011 in the following companies that may trade on a commercial basis with companies in the Mercer Group: Vera Facienda Limited, CPI Limited, SBS Bank, Fraser Properties Limited, General Cable Superconductors Limited, Southsure Assurance Limited.

Ian Farrant
Mr Farrant was a non-executive director and was appointed to the Board on 13 November 1986. Mr Farrant ceased to be a director on 6 May 2011.

Matters entered in the interests register:
Mr Farrant declared an interest in Skeggs Group Limited, a company that may trade with Mercer Group companies.

At 30 June 2011 Mr Farrant held 538,240 shares in his own name. Associated Persons of Mr Farrant held 6,880,317 shares at that date.

Stuart Heal
Mr Heal is a non-executive director and has been a member of the Board since 1 July 2004.

Matters entered in the interests register:
Mr Heal ceased to be a director of Natural Dairy Products 2007 Limited on 31 July 2010, a company that may trade with Mercer Group companies.

Paul Hewitson
Mr Hewitson is a non-executive director and has been a member of the Board since 29 February 2000.

Matters entered in the interests register:

At 30 June 2011 Mr Hewitson held 3,984,999 shares as a trustee.

During the year the Group repaid in full loans advanced by Mr Hewitson totalling $178,000

Humphry Rolleston
Mr Rolleston is a non-executive director and has been a member of the Board since 6 August 1986.

Matters entered in the interests register:
Mr Rolleston has declared directorships in the following companies that may 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.

During the year the Group repaid in full loans advanced by Gresham Finance Limited totalling $2,650,000.

Following the February 2011 earthquake in Canterbury, Asset Management Limited entered into a 12 month lease with an annual rental of $10,000 for 60 square metres of office space at the Mercer Stainless premises, 53 Lunns Road, Christchurch.

Following the February 2011 earthquake in Canterbury, Murray & Company Limited entered into a 4 month lease with an annual rental of $18,000 for 95 square metres of office space at the Mercer Stainless premises, 45 Lunns Road, Christchurch.

At 30 June 2011 Mr Rolleston held 35,714,470 shares beneficially. Associated Persons of Mr Rolleston held 45,372,045 shares at that date.

Richard Rookes
Mr Rookes is a non-executive director and was appointed to the Board on 21 February 2011.

Matters entered in the interests register:
Mr Rookes is a shareholder in Murray & Company Limited & Murray Capital Limited.

As noted above, following the February 2011 earthquake in Canterbury, Murray & Company Limited entered into a 4 month lease with an annual rental of $18,000 for 95 square metres of office space at the Mercer Stainless premises, 45 Lunns Road, Christchurch.

Directors' Report

For the year ended 30 June 2011

Remuneration of Directors

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

	2011 $	2010 $
G Diack	6,508	-
I Farrant	36,491	43,000
SB Heal	38,000	40,000
P Hewitson	38,000	38,000
HJD Rolleston	38,000	38,000
R Rookes	13,559	-

Employees

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

	2011	2010
$100,000 – 109,999	2	3
$110,000 – 119,999	2	4
$120,000 – 129,999	4	1
$130,000 – 139,999	1	1
$140,000 – 149,999	1	1
$150,000 – 159,999	1	-
$160,000 – 169,999	1	1
$170,000 – 179,999	1	-
$180,000 – 189,999	-	1
$190,000 – 199,999	1	-
$210,000 – 219,999	2	-
$240,000 – 249,999	-	1
$260,000 – 269,999	-	1

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 9 September 2011. Twenty largest shareholders:

Holder	Number held	% of Shares on Issue
Murray Capital Rakaia Fund Ltd Partnership	65,628,467	29.95
Asset Management Ltd	44,737,879	20.42
HJD Rolleston & GW Riley	35,687,988	16.29
Hubbard Churcher Trust Management Ltd	31,320,776	14.29
Parvenu Holdings Ltd	6,880,317	3.14
AJ & MJ Hubbard	6,337,963	2.89
BD Lobb	4,965,329	2.27
P Hewitson & CJ Stark	3,984,999	1.82
JI Urquhart	3,104,030	1.42
Pendene Farm Ltd	975,441	0.45
TJ Van Geldermalsen & MG Freemantle	906,221	0.41
GB Lowe	828,934	0.38
HD Milliner	653,329	0.30
Asset Trading Ltd	612,567	0.28
RA Snowden	548,800	0.25
IF Farrant	538,240	0.25
Te Iwi Carving Ltd	489,669	0.22
MH Teulon & EM Quigley	444,449	0.20
R Merrall	437,000	0.20
S Stark	361,972	0.17
	209,444,370	95.58

Directors' Report

For the year ended 30 June 2011

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 2011 is $0.005 for each warrant.

Distribution of security holders:

Range of shareholdings	Number of holders	%	Number of shares held	%
1 to 1,000	92	22.94	48,475	0.02
1,001 to 5,000	115	28.68	315,823	0.14
5,001 to 10,000	46	11.47	339,721	0.16
10,001 to 100,000	94	23.44	3,399,421	1.55
100,001 and over	54	13.47	215,037,233	98.13
	401	100	219,140,673	100

Domicile of security holders	Number of holders	%	Number of shares held	%
New Zealand	386	96.3	217,454,711	99.2
Australia	12	3.0	1,520,184	0.7
Other	3	0.7	165,778	0.1
	401	100	219,140,673	100

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 9 September 2011.

	Relevant Interest Voting Securities	% of Shares
HJD Rolleston	81,086,515*	37.002
Murray Capital Rakaia Fund Ltd Partnership	65,628,467*	29.948
Hubbard Churcher Trust Management Ltd	31,320,776*	14.293

* The total number of voting securities of the Company on issue at 9 September 2011 was 219,140,673.

Auditors

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

	2011 $000	2010 $000
Auditing the financial statements	121	120
Other services	5	8
	126	128

Mercer Group Limited
Corporate Directory

Mercer Group Limited

Registered Office:	7 Corban Ave, Henderson, Auckland Chief Executive Officer: Rodger Shepherd Chief Financial Officer: Tobin Blathwayt
Bankers:	Westpac New Zealand Limited
Solicitors:	Buddle Findlay
Share Registry:	Link Market Services, PO Box 384, Ashburton
Auditors:	PricewaterhouseCoopers

Mercer Products

45 Lunns Road, Christchurch
Ph: (03) 348 8002
Divisional Manager: David Mayell

20 Norman Hayward Place, Te Rapa, Hamilton
Ph (07) 850 5601
National Sales Manager: Rod Routley

113 Wolston Road, Sumner Park, Queensland, Australia
Ph 0061 (7) 3279 2020
National Sales Manager: Peter Dawes

Mercer Stainless

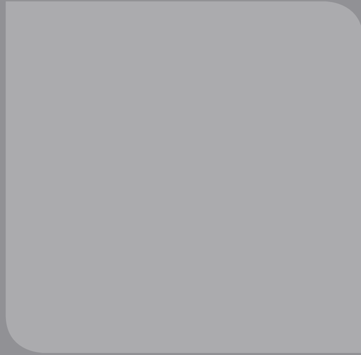
53 Lunns Road, Christchurch
Ph: (03) 348 7039
Branch Manager: Ross Coppard

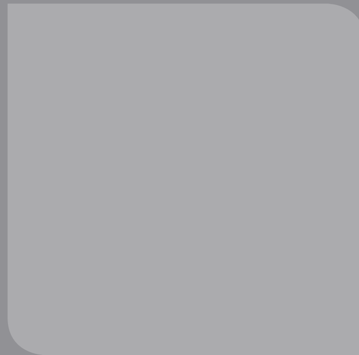
Corbett Road, Bell Block, New Plymouth
Ph: (06) 755 1276
Branch Manager: Terry Moratti

113 Wolston Road, Sumner Park, Queensland, Australia
Ph 0061 (7) 3279 2020
Branch Manager: Denis Nolan

Mercer Medical

7 Corban Ave, Henderson, Auckland
Ph: (09) 837 5002
General Manager: Charles Brothers





Mercer Group Limited

Annual Report for the year ended 30 June 2011

Directors Report

The Directors have pleasure in presenting the Annual Financial Statements of Mercer Group Limited, for the year ended 30 June 2011.
The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 21 September 2011

G Diack

H J D Rolleston

Statements of Comprehensive Income

For the year ended 30 June 2011

	Notes	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
Continuing operations					
Revenue					
Sale of goods and contract revenue	6	30,359	36,867	-	-
Other income	7	74	300	616	1,750
Total income		30,433	37,167	616	1,750
Expenses					
Cost of inventory sold		13,936	17,779	-	-
Salaries and wages		11,828	12,839	-	-
Rental and operating leases		1,565	1,462	-	-
Depreciation	15	1,002	995	-	-
Amortisation	16	234	149	-	-
Impairment of goodwill	16	2,780	-	-	-
Impairment of other intangible assets	8	577	564	-	-
Other expenses	8	7,830	5,109	1,829	3,720
Deficit before finance costs		(9,319)	(1,730)	(1,213)	(1,970)
Finance costs net	9	730	852	674	(64)
Deficit before taxation		(10,049)	(2,582)	(1,887)	(1,906)
Income tax credit	10	(827)	(40)	(152)	(27)
Deficit after tax from continuing operations		(9,222)	(2,542)	(1,735)	(1,879)
Deficit from discontinued operations	30	(130)	(804)	-	-
Deficit after tax attributable to the shareholders		(9,352)	(3,346)	(1,735)	(1,879)
Other comprehensive income					
Currency translation differences		218	(84)	-	-
Asset revaluation reserve movement		11	63	-	-
Other comprehensive income for the year, net of tax		229	(21)	-	-
Total comprehensive income attributable to the shareholders		(9,123)	(3,367)	(1,735)	(1,879)
Basic and diluted earnings per share:					
Deficit per share attributable to shareholders of the company (cents)	25	(8.19)	(8.55)		
Deficit per share from continuing operations attributable to shareholders of the company (cents)	25	(8.08)	(6.50)		
Deficit per share from discontinued operations attributable to shareholders of the company (cents)	25	(0.11)	(2.05)		

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

Statements of Financial Position

As at 30 June 2011

	Notes	Group 30 June 2011 $000	Group 30 June 2010 $000	Parent 30 June 2011 $000	Parent 30 June 2010 $000
ASSETS					
Current Assets					
Cash and bank balances	11	-	-	26	8
Accounts receivable	12	6,846	4,702	-	-
Other debtors and prepayments	12	1,053	722	59	24
Derivative financial instruments	13	6	7	-	-
Taxation refund		5	6	5	5
Inventories	14	4,761	7,232	-	-
Total current assets		12,671	12,669	90	37
Non current assets					
Accounts receivable	12	-	2,601	-	-
Property, plant and equipment	15	9,336	10,386	-	-
Intangible assets	16	3,589	7,321	-	-
Deferred tax asset	17	4,225	3,334	1,669	1,517
Investment in subsidiaries	18	-	-	31,331	30,285
Total non current assets		17,150	23,642	33,000	31,802
Total assets		29,821	36,311	33,090	31,839
LIABILITIES					
Current liabilities					
Bank overdraft	11	219	261	-	-
Trade and other payables	19	5,676	5,783	165	190
Employee entitlements		949	936	-	-
Derivative financial instruments	13	26	-	-	-
Borrowings	20	6,304	12,024	7,495	13,028
Total current liabilities		13,174	19,004	7,660	13,218
Non current liabilities					
Borrowings	20	230	311	-	-
Total liabilities		13,404	19,315	7,660	13,218
Net assets		16,417	16,996	25,430	18,621
EQUITY					
Contributed equity	21	27,981	19,437	27,981	19,437
Other reserves	22	2,034	1,861	-	-
Retained earnings	22	(13,598)	(4,302)	(2,551)	(816)
Total equity		16,417	16,996	25,430	18,621

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 2011

	Notes	Contributed Equity $000	Retained Earnings $000	Other Reserves $000	Total Equity $000
Group					
Balance at 1 July 2009		19,437	(1,008)	1,934	20,363
Foreign currency translation reserve movement	22	-	-	(84)	(84)
Asset revaluation reserve movement	22	-	52	11	63
Deficit for the year		-	(3,346)	-	(3,346)
Total comprehensive income for the year		-	(3,294)	(73)	(3,367)
Issue of new shares	21	-	-	-	-
Dividends paid	23	-	-	-	-
Balance at 30 June 2010		19,437	(4,302)	1,861	16,996
Foreign currency translation reserve movement	22	-	-	218	218
Asset revaluation reserve movement	22	-	56	(45)	11
Deficit for the year		-	(9,352)	-	(9,352)
Total comprehensive income for the year		-	(9,296)	173	(9,123)
Issue of new shares	21	8,544	-	-	8,544
Dividends paid	23	-	-	-	-
Balance at 30 June 2011		27,981	(13,598)	2,034	16,417

	Notes	Contributed Equity $000	Retained Earnings $000	Other Reserves $000	Total Equity $000
Parent					
Balance at 1 July 2009		19,437	1,063	-	20,500
Asset revaluation reserve movement	22	-	-	-	-
Foreign Currency translation reserve movement	22	-	-	-	-
Deficit for the year		-	(1,879)	-	(1,879)
Total comprehensive income for the year		-	(1,879)	-	(1,879)
Issue of new shares	21	-	-	-	-
Dividends paid	23	-	-	-	-
Balance at 30 June 2010		19,437	(816)	-	18,621
Deficit for the year		-	(1,735)	-	(1,735)
Total comprehensive income for the year		-	(1,735)	-	(1,735)
Issue of new shares	21	8,544	-	-	8,544
Dividends paid	23	-	-	-	-
Balance at 30 June 2011		27,981	(2,551)	-	25,430

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 2011

	Notes	Group		Parent	
		30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Operating activities					
Cash was provided from:					
Receipts from customers		31,639	41,658	-	-
Interest received		-	3	-	822
Taxation received		-	40	3	-
Receipts from subsidiaries		-	-	633	145
Cash was disbursed to:					
Payments to suppliers and employees		(33,078)	(41,202)	(378)	(594)
Tax paid		-	-	-	-
Interest on borrowings		(806)	(712)	(779)	(690)
Other interest		(59)	(103)	-	-
Payments to subsidiaries		-	-	(83)	(81)
Net cash outflow from operating activities	24	(2,304)	(316)	(604)	(398)
Investing activities					
Cash was provided from:					
Proceeds from sale of property, plant and equipment		7	5	-	-
Proceeds from sale of business		-	1,000	-	-
Repayments from subsidiaries		-	-	1,699	4,606
Cash was applied to:					
Purchase of property, plant and equipment		(427)	(199)	-	-
Patents and development activities		(159)	(264)	-	-
Advances to subsidiaries		-	-	(4,127)	(4,439)
Net cash inflow / (outflow) from investing activities		(579)	542	(2,428)	167
Financing activities					
Cash was provided from:					
New borrowings		1,500	2,800	1,500	2,800
Issue of new shares		3,976	-	3,976	-
Cash was applied to:					
Repayment of borrowings		(2,540)	(2,675)	(2,426)	(2,549)
Net cash inflow from financing activities		2,936	125	3,050	251
Net increase in cash held		53	351	18	20
Cash at beginning of the year		(261)	(594)	8	(12)
Effect of exchange rate changes		(11)	(18)	-	-
Cash and bank balances at the end of the year	11	(219)	(261)	26	8

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 (continued)

For the year ended 30 June 2011

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 owned subsidiaries as disclosed in Note 18. The core activities of the Mercer Group are:

The manufacture in Christchurch and supply to New Zealand and Australia of kitchen, bathroom and laundry products by Mercer Products.

Stainless steel fabrication and equipment manufacture and supply by Mercer Stainless workshops in Christchurch, New Plymouth and 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 21 September 2011.

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 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.

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

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 directors completed a comprehensive review of business strategy and performance and in light of the continued poor performance of the Mercer Stainless Australian business, commenced a restructure of the Australian operations to realign the business to an appropriate scale. Following the restructure, the Group is projecting to be EBITDA positive and is also expecting to generate positive net cash inflows from operating and investing activities of at least $1.0 million in the first year after the restructure.

The Group did not meet all its bank covenants at 30 June 2011 (refer to note 4 (d)) The bank has since waived the covenant breach and will re-test in December 2011. The bank facilities expire on 31 December 2011. The directors are confident of securing on-going funding and accordingly the directors believe that it continues to be appropriate to prepare financial statements 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 2011 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 acquistion 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.

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.

(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 Chief Executive Officer. The Chief Executive Officer reviews 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

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

[i] Investments

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

(ii) 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.

(iii) 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 (eg over the counter derivatives) is determined using valuation techniques.

(p) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least every five 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 6.5% – 40.0%

The assets' 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.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, net of any grants receivable, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Other development expenditure is recognised in the statement of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, generally not exceeding five years.

(iii) Patents, trademarks and licences

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

(r) Trade and other payables

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

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

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the 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.

(t) Borrowing costs

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. Other borrowing costs are expensed.

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.

(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) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) 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 are 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.

(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) Changes in accounting policies

The following are the new standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2010 and which are relevant to the Group. These amendments have not resulted in material accounting or disclosure changes for the Group.

Improvements to NZ Equivalents to IFRS (2009): effective 1 January 2010
NZ IAS 36: Unit of accounting for goodwill impairment test.
NZ IAS 39: Financial Instruments: Recognition and Measurement.
Improvements to NZ Equivalents to IFRS (2010): effective 1 July 2010.

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

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).
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 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 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) NZ IFRS 10: Consolidated Financial Statements (Effective date periods beginning on or after 1 January 2013).
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).
NZ IAS 28: Investments in Associates and Joint Ventures (Effective date on or after 1 July 2011).

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 Company or the Group other than disclosures.

3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS require the use of certain critical accounting estimates and judgements concerning the future. The resulting estimates may not equal related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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. An impairment has been recognised in the current period – refer to note 16.

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 and investments in 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), ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange to determine market risk and aging analysis for credit risk.

Risk management is carried out by the Board 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 2011				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	7,532	-	-	-
Derivative financial instruments	-	6	-	26
Trade and other payables	-	-	-	6,625
Borrowings and overdraft	-	-	-	6,753
	7,532	6	-	13,404
Group 2010				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	7,688	-	-	-
Derivative financial instruments	-	7	-	-
Trade and other payables	-	-	-	6,719
Borrowings and overdraft	-	-	-	12,596
	7,688	7	-	19,315
Parent 2011				
Cash and cash equivalents	26	-	-	-
Other receivables	64	-	-	-
Other payables	-	-	-	165
Borrowings and overdraft	-	-	-	7,495
	90	-	-	7,660
Parent 2010				
Cash and cash equivalents	8	-	-	-
Other receivables	24	-	-	-
Other payables	-	-	-	190
Borrowings and overdraft	-	-	-	13,028
	32	-	-	13,218

(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	Post tax profit	Equity	Post tax profit	Equity
30 June 2011	(1,687)	121	-	(121)	-
30 June 2010	(105)	8	-	(8)	-

Parent - $'000		+10% and $'000		-10% and $'000	
	Foreign Currency amount	Post tax profit	Equity	Post tax profit	Equity
30 June 2011	-	-	-	-	-
30 June 2010	-	-	-	-	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

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 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Trade receivables				
Australian dollar	366	163	-	-
United States dollar	2,323	2,711	-	-
Euro	-	4	-	-
Other	-	16	-	-
Trade payables				
Australian dollar	(139)	(177)	-	-
United States dollar	-	-	-	-
Euro	(71)	(279)	-	-
Other	(63)	(26)	-	-
Borrowings and advances				
Australian dollar	(2,202)	(983)	-	-
United States dollar	(1,640)	(1,347)	-	-
Euro	-	-	-	-
Other	-	-	-	-
Derivative financial instruments (notional amounts)				
Australian dollar	617	(207)	-	-
United States dollar	-	-	-	-
Euro	-	-	-	-
Other	(878)	20	-	-
	(1,687)	(105)	-	

(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. During 2011 and 2010 the Group's borrowings at variable rates were denominated in New Zealand dollars, Australian dollars and United States 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 (2010: Nil).

	$'000	+1pp and $'000		-1pp and $'000	
Group	Carrying amount	Post tax profit	Equity	Post tax profit	Equity
30 June 2011	6,152	(44)	-	44	-
30 June 2010	8,024	(58)	-	58	-

	$'000	+1pp and $'000		-1pp and $'000	
Parent	Carrying amount	Post tax profit	Equity	Post tax profit	Equity
30 June 2011	6,152	(44)	-	44	-
30 June 2010	8,024	(58)	-	58	-

The above 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 Company and the Group on which interest is not fixed is $6,152,000 (2010: Company and Group $8,024,000). The table assumes no additional borrowing, no repayments and a tax rate of 28% (2010: 30%).

(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.

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

At 30 June 2011 the Group had exposure to two significant debtors which in total amounted to $2,911,000. Subsequent to year end one debtor owing $678,000 settled its account in full. The other debtor for $2,233,000 represents an amount due under bank letters of credit. $661,000 was paid subsequent to year end with the balance due in November 2011. There are no further concentrations of credit risk.

(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 $230,000 (2010: $311,000) are due between 2 and 5 years. Contingent liabilities disclosed in note 26 amount to $1,634,000 (2010: $1,685,000) for the Group and $1,634,000 (2010: $1,685,000) for the Parent. If these amounts become payable, the liabilities will fall due in less than 12 months.

(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.

	Group		Parent	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Equity $'000	16,417	16,996	25,430	18,621
Total assets $'000	29,821	36,311	33,090	31,839
Equity ratio	55.1%	46.8%	76.9%	58.5%

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

The Group is subject to the following covenants in relation to the $6.6 million multi option credit facility as detailed in note 20:

- Ratio of shareholder funds to total tangible assets; and
- Ratio of earnings to consolidated funding costs.

At 30 June 2011 the Group met only one of these covenants. As a result bank debt has been classified as current in the statement of financial position as the bank had the right to demand repayment. The covenant breach has since been waived and the covenants will be re-tested in December 2011. The facility expires on 31 December 2011. The directors are confident of securing on-going funding. Accordingly, the directors believe that it continues to be appropriate to prepare financial statements on a going concern basis.

(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 the workshop in Brisbane, Australia operated by Mercer Stainless Pty Limited. The division is a fabricator of equipment, predominantly in stainless steel.

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

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

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

	30 June 2011 $000			30 June 2010 $000		
	Total sales revenue	Segment result	Segment assets	Total sales revenue	Segment result	Segment assets
Stainless Fabrication	18,287	(7,152)	6,274	22,215	(1,645)	13,034
Mercer Products	9,050	(826)	9,603	10,426	429	8,521
Mercer Medical	3,261	(131)	1,244	4,353	265	1,784
Corporate	–	(1,210)	12,567	–	(779)	10,052
Intersegment eliminations	(239)	-	-	(127)	-	(196)
Finance costs	–	(730)	-	–	(852)	-
Income tax credit	–	827	-	–	40	-
Total continuing operations	30,359	(9,222)	29,688	36,867	(2,542)	33,195
Discontinued operations	95	(130)	133	617	(804)	3,116
Total Group	30,454	(9,352)	29,821	37,484	(3,346)	36,311

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 2011 $000	30 June 2010 $000
Stainless Fabrication	475	401
Mercer Products	506	506
Mercer Medical	36	43
Corporate	219	189
	1,236	1,139

It is not practical 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:

	30 June 2011 $000	30 June 2010 $000
New Zealand	12,546	16,010
Australia	379	4,298
	12,925	20,308

6. Sale of goods and contract revenue

	30 June 2011 $000		30 June 2010 $000	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Group				
Sale of goods	9,559	95	12,034	617
Construction contract revenue	20,800	-	24,833	-
	30,359	95	36,867	617

7. Other income

	30 June 2011 $000		30 June 2010 $000	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Group				
Exchange gains	-	-	46	-
Royalties received	-	-	236	-
Other	74	-	18	6
Total other income	74	-	300	6
Parent				
Dividends received	-	-	1,750	-
Total other income	-	-	1,750	-

8. Other Expenses

	30 June 2011 $000 Continuing operations	30 June 2010 $000 Continuing operations
Group		
Foreign exchange losses (gains)	121	(46)
Loss on disposal of property, plant and equipment	-	3
Research and development	16	17
Advertising	322	348
Bad debts written off (note 12)	36	46
Communication costs	278	330
Electricity costs	229	214
Employee on-costs	549	604
Insurance	271	243
Vehicle expenses	279	262
Impairment of receivables (note 12)	85	(13)
Impairment of patents and development costs (note 16)*	577	564
Impairment of inventories (note 14)	321	(8)
Impairment of fixed assets (note 15)*	195	-
Directors' fees	171	159
Repairs and maintenance	426	366
Restructuring costs*	2,021	-
Subcontractors	147	73
Travel and accomodation	442	414
Fees paid to Auditors		
Audit	121	120
Review of half year report	5	8
Donations	-	1
Other expenses	1,218	1,404
	7,830	5,109
Parent		
Impairment of subsidiaries (note 18)	1,344	3,190
Directors' fees	171	159
Fees paid to Auditors		
Audit	54	56
Review of half year report	5	8
Other expenses	255	307
	1,829	3,720

* Restructuring costs comprise additional impairment of intangibles $514,000, inventory $791,000, fixed assets $299,000 and a provision of $417,000.

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

9. Finance costs

	30 June 2011 $000 Continuing operations	30 June 2011 $000 Discontinued operations	30 June 2010 $000 Continuing operations	30 June 2010 $000 Discontinued operations
Group				
Interest earned	(48)	-	(1)	(173)
Less:				
Interest expense	778	-	853	7
Net finance costs / (income)	730	-	852	(166)
Parent				
Interest earned	-	-	(790)	-
Less:				
Interest expense	674	-	726	-
Net finance costs / (income)	674	-	(64)	-

10. Income tax credit

	30 June 2011 $000 Continuing operations	30 June 2011 $000 Discontinued operations	30 June 2010 $000 Continuing operations	30 June 2010 $000 Discontinued operations
Group				
(a) Income tax credit				
Current tax	-	-	(33)	-
Deferred tax (Note 17)	(827)	(48)	(7)	(243)
	(827)	(48)	(40)	(243)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Deficit before tax expense	(10,049)	(178)	(2,582)	(1,047)
Expenditure not deductible for tax	2,790	7	31	3
Deficit subject to tax	(7,259)	(171)	(2,551)	(1,044)
Tax at the New Zealand tax rate of 28% (2010: 30%)	(2,033)	(48)	(765)	(313)
Underestimation in prior year	3	-	(25)	-
Effect of change in tax rate from 30% to 28% on deferred tax balance	-	-	257	70
Recognise deferred tax on buildings	16	-	346	-
Current year tax losses in Australia not recognised	1,187	-	147	-
Income tax credit	(827)	(48)	(40)	(243)

	30 June 2011 $000		30 June 2010 $000	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Parent				
(a) Income tax credit				
Current tax	-	-	-	-
Deferred tax (Note 17)	(152)	-	(27)	-
	(152)	-	(27)	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Deficit before tax expense	(1,887)	-	(1,906)	-
Dividends received	-	-	(1,750)	-
Impairment of investments in subsidiaries	1,344	-	3,190	-
Other expenditure not deductible for tax	-	-	14	-
Deficit subject to tax	(543)	-	(452)	-
Tax at the New Zealand tax rate of 28% (2010: 30%)	(152)	-	(135)	-
Effect of change in tax rate from 30% to 28% on deferred tax balance	-	-	108	-
Income tax credit	(152)	-	(27)	-

(c) Unrecognised deferred tax balances

At 30 June 2011 there were $9,656,000 (2010: $5,231,000) of unrecognised tax losses, representing a tax benefit of $2,897,000 (2010: $1,569,000). 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 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Credits available to shareholders of the company	-	-	-	-

11. Cash and bank balances

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Cash at bank and in hand	-	-	26	8
Total cash and bank balances	-	-	26	8
Less bank overdrafts	219	261	-	-
Cash and cash equivalents per cash flow statement	(219)	(261)	26	8

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

12. Accounts receivable, other debtors and prepayments

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Current				
Trade receivables - continuing	1,411	2,308	-	-
Trade receivables - discontinued	72	220		
Less provision for doubtful receivables	(71)	(70)		
Construction contract receivables	5,501	2,264	-	-
Less provision for doubtful receivables	(67)	(20)	-	-
Total accounts receivable	6,846	4,702	-	-
Other debtors and prepayments				
Total other debtors	686	385	59	13
Prepayments	367	337	-	11
Total other debtors and prepayments	1,053	722	59	24
Impairment provision				
Provision for doubtful debts at 1 July				
-Disclosed in business held for sale	-	(45)	-	-
-Disclosed separately on balance sheet	(90)	(154)	-	-
	(90)	(199)	-	-
(Increase) / Decrease in provision	(85)	46	-	-
Bad debts written off	37	63	-	-
Provision for doubtful debts at 30 June	(138)	(90)	-	-
Due and impaired receivables				
Impaired receivables				
1 to 3 months	-	-	-	-
3 to 6 months	138	90	-	-
	138	90	-	-
Due but not impaired receivables				
1 to 3 months	962	1,364	-	-
3 to 6 months	383	370	-	-
	1,345	1,734	-	-

All trade and other receivables are expected to mature within 12 months of balance date. Management considers that receivables past due, but not impaired, are fully collectible in the ordinary course of business.

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Non current				
Trade receivables	-	2,601	-	-

The receivable relates to an amount previously owed to Mercer Middle East Limited under bank letters of credit. The proceeds, due in July 2011 and November 2011, are now disclosed under current assets.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

13. Derivative financial instruments

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Forward foreign exchange contracts				
Assets	6	7	-	-
Liabilities	(26)	-	-	-
	(20)	7	-	-
Expected maturity				
Within 12 months	(20)	7	-	-
Later than 12 months	-	-	-	-
	(20)	7	-	-

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 seven (2010: two) forward foreign exchange contracts for a total notional amount of $1,494,000 (2010: $243,000).

14. Inventories

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Raw materials and components	1,833	1,736	-	-
Contract work in progress	12,771	11,162	-	-
Less: progressive billings	(12,753)	(10,490)	-	-
	1,851	2,408	-	-
Finished goods - continuing	2,860	4,465	-	-
Finished goods – discontinued (note 30)	50	359		
Total inventories	4,761	7,232	-	-

The cost of inventories recognised as impaired and included in cost of inventory sold amounted to $321,000 expense for continuing operations (2010: $8,000 income) and $152,000 expense for discontinued operations (2010: $96,000 expense). The cost of inventories recognised as impaired and included in restructuring costs amounted to $791,000 expense (2010: $Nil).

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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

15. Property, plant and equipment

Group	Freehold land $'000	Buildings $'000	Plant, and equipment $'000	Total $'000
At 1 July 2009				
Cost/Valuation	1,557	3,743	13,610	18,910
Accumulated depreciation	-	-	(7,985)	(7,985)
Net book value	1,557	3,743	5,625	10,925
Year ended 30 June 2010				
Opening net book amount	1,557	3,743	5,625	10,925
Additions	-	-	460	460
Effect of exchange rate movements	-	-	(7)	(7)
Depreciation	-	(117)	(873)	(990)
Disposals	-	-	(2)	(2)
Closing net book amount	1,557	3,626	5,203	10,386
At 1 July 2010				
Cost/Valuation	1,557	3,743	14,020	19,320
Accumulated depreciation	-	(117)	(8,817)	(8,934)
Net book value	1,557	3,626	5,203	10,386
Year ended 30 June 2011				
Opening net book amount	1,557	3,626	5,203	10,386
Additions	-	-	343	343
Impairment	-	-	(494)	(494)
Effect of exchange rate movements	-	-	109	109
Depreciation	-	(110)	(892)	(1,002)
Disposals	-	-	(6)	(6)
Closing net book amount	1,557	3,516	4,263	9,336
At 30 June 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

The property at 53 Lunns Road, Christchurch was revalued to $3,350,000 on 5 May 2009. The property at Corbett Rd, Bell Block, New Plymouth 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.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

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

Included in plant and equipment are assets with a cost of $624,000 (2010: $550,000) and a net book value of $372,000 (2010: $414,000), which are subject to hire purchase agreements.

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

	30 June 2011 $000	30 June 2010 $000
Cost	2,920	2,920
Accumulated depreciation	(639)	(579)
Net book value	2,281	2,341

Parent	**Plant and equipment $000**
At 1 July 2009	
Cost	3
Accumulated depreciation	(3)
Net book value	-
Year ended 30 June 2010	
Opening net book amount	-
Additions	-
Depreciation	-
Disposals	-
Closing net book amount	-
At 1 July 2010	
Cost	3
Accumulated depreciation	(3)
Net book value	-
Year ended 30 June 2011	
Opening net book amount	-
Additions	-
Depreciation	-
Disposals	-
Closing net book amount	-
At 30 June 2011	
Cost	3
Accumulated depreciation	(3)
Net book value	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

16. Intangible assets

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Goodwill				
Cost	5,313	5,313	-	-
Impairment charges	(2,614)	-	-	-
Net book amount	2,699	5,313	-	-
Opening balance	5,313	5,341	-	-
Effect of movement in exchange rate	166	(28)	-	-
Impairment charge	(2,780)	-	-	-
Closing balance	2,699	5,313	-	-
Acquired patents, trademarks and licences				
Cost	562	587	-	-
Accumulated amortisation and impairment charges	(350)	(182)	-	-
Net book amount	212	405	-	-
Opening balance	405	298	-	-
Additions	33	158	-	-
Effect of movement in exchange rate	(58)	(3)	-	-
Impairment charge	(152)	-	-	-
Amortisation	(16)	(48)	-	-
Closing balance	212	405	-	-
Development assets				
Cost	2,880	2,648	-	-
Accumulated amortisation and impairment charges	(2,202)	(1,045)	-	-
Net book amount	678	1,603	-	-
Opening balance	1,603	2,171	-	-
Additions	126	106	-	-
Effect of movement in exchange rate	106	(9)	-	-
Impairment charge	(939)	(564)	-	-
Amortisation	(218)	(101)	-	-
Closing balance	678	1,603	-	-
Total intangible assets	3,589	7,321	-	-

An amortisation period of five years has been adopted in respect of development assets completed and commercialised.
The amortisation period for patents is the life of the patent, generally 20 years.

Goodwill impairment test

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 2011 $000	30 June 2010 $000
Mercer Products	2,699	2,699
Mercer Stainless	-	2,614
	2,699	5,313

The goodwill allocated to Mercer Products relates to the acquisition and subsequent integration of Duratech Wholesale Limited in 2008. The goodwill allocated to Mercer Stainless relates to the acquisition of the Inmotion Engineering Pty business in 2007. As a result of the restructure of the Australian operations the directors have concluded that Mercer Stainless goodwill is impaired and have fully written this amount down.

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 to June 2012.

In 2010 cash flows for Mercer Products for the 2011 year were forecast assuming a growth rate of 30%. Due to two earthquakes in Canterbury, the wider slowdown in NZ building activity, a flood and delayed growth into Australia, the actual growth rate was -15.0%. Cash flows for 2012 for Mercer Products assume a 18% (2010: 30%) increase in sales reflecting a return to pre-recession levels. Cash flows for the subsequent four years are extrapolated using estimated sales growth rates of 5% (2010: 11-24%) reflecting moderate growth. A terminal year was calculated based on the 2016 year and assumes a continuous growth rate of 3% (2010: 3%).

The discount rate used is the averaged weighted cost of capital of 13% (2010: 13%).

For there to be an impairment requirement the key assumptions would need to change as follows:

	Mercer Products	
Key Assumptions	**Original value**	**Impairment required at**
Average annual revenue growth rate for the next five years	7.50%	7.00%
Discount rate	13.00%	14.00%

The forecasts are based on a terminal year growth rate of 3% with impairment required at 1%.

Impairment of goodwill included in restructuring costs amounted to $2,780,000 (2010: $Nil). Impairment of patents, trademarks & licences included in restructuring costs amounted to $67,000 (2010: $Nil). Impairment of development assets included in restructuring costs amounted to $447,000 (2010: $Nil).

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

17. Deferred tax asset

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Group				
Balance at 1 July 2009	(714)	764	2,971	3,021
Amounts credited to the asset revaluation reserve	63	-	-	63
Amounts (charged) / credited to the income statement	(347)	(80)	677	250
Balance at 30 June 2010	(998)	684	3,648	3,334
Balance at 1 July 2010				
Disclosed separately on balance sheet	(998)	684	3,648	3,334
	(998)	684	3,648	3,334
Amounts credited to the asset revaluation reserve	16	-	-	16
Amounts credited to the income statement	-	468	407	875
Balance at 30 June 2011	(982)	1,152	4,055	4,225

Other Temporary Differences arise from provisions for working capital. $135,000 (2010: $Nil) of the deferred tax asset is expected to be realised over the next 12 months. The deferred tax balance of $4,225,000 includes $970,000 (2010: $946,000) from discontinued operations.

	Buildings $000	Other Temporary Differences $000	Tax Losses $000	Total $000
Parent				
Balance at 1 July 2009	-	-	1,490	1,490
Amounts charged to the income statement	-	-	27	27
Balance at 30 June 2010	-	-	1,517	1,517
Balance at 1 July 2010	-	-	1,517	1,517
Amounts charged to the income statement	-	-	152	152
Balance at 30 June 2011	-	-	1,669	1,669

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

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

18. Investment in subsidiaries

Name of entity	Activities
Mercer Stainless Limited	Stainless steel fabricator, manufacturer / distributor of kitchen, bathroom and laundry products and distributor of medical products.
Mercer Technologies Limited	Business transferred to Mercer Stainless Limited 1 July 2009.
Mercer Middle East Limited	Distributor of medical equipment and products. This business was closed in 2010.
Mercer Products Pty Limited	Distributor of sinks for the kitchen, bathroom and laundry.
Mercer Stainless Pty Limited	Manufacturer and supplier of conveyors.
Old HEP Limited	Formerly a distributor of photographic equipment. This business was sold 30 June 2009.

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

All subsidiaries are located in New Zealand with the exception of Mercer Products Pty Limited and Mercer Stainless Pty Limited which are located in Australia.

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

	30 June 2011 $000	30 June 2010 $000
Shares at cost	17,845	17,845
Less impairment	15,899	15,886
	1,946	1,959
Advances to subsidiaries	34,869	32,479
Less impairment	5,484	4,153
	29,385	28,326
	31,331	30,285

Investments in subsidiaries are recorded at cost less impairment charges. During the year the investments in HE Perry Limited, Mercer Technologies Limited and Duratech Wholesale Limited were impaired by $1,344,000 (2010: $3,190,000). The impairment testing has been calculated as the carrying amount of the net assets of the above companies which no longer trade.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

19. Trade and other payables

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Trade creditors - continuing	3,416	4,056	-	-
Trade creditors - discontinued	38	96	-	-
Sundry creditors and accruals	2,222	1,631	165	190
Total creditors and accruals	5,676	5,783	165	190

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

20. Borrowings

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Bank loans	6,152	8,024	6,152	8,024
Bank loans - Hire purchase	151	199	-	-
Gresham Finance Loan	-	3,690	-	3,690
Loan from a director	-	178	-	178
Other hire purchase loans	231	244	-	-
Advance from a subsidiary	-	-	1,343	1,136
Total borrowings	6,534	12,335	7,495	13,028
Expected maturity:				
Within one year	6,304	12,024	7,495	13,028
Later than one year	230	311	-	-
	6,534	12,335	7,495	13,028

Bank loans

Bank loans are secured by a composite debenture over the Group's assets, supported by a registered first charge over the properties. Bank hire purchase loans are secured by a registered charge over the assets financed and by a composite debenture over the assets of Mercer Stainless Pty Limited.

Bank loans (including hire purchase loans) at 30 June 2011 include:

- $87,000 outstanding on hire purchase loans for the purchase of plant and equipment with monthly repayments of AUD $1,982 until 8 October 2012. The interest rate on this loan was 9% (2010: 9%);
- $20,631 outstanding on hire purchase loans for the purchase of motor vehicles with monthly repayments of AUD $1,205 until 8 October 2011. The interest rate on this loan was 8% (2010: 8%);
- $43,449 outstanding on hire purchase loans for the purchase of plant and equipment with monthly repayments of AUD $1,165 until 25 November 2013. The interest rate on this loan was 8% (2010: 8%);
- $29,393 outstanding on hire purchase loans for the purchase of a motor vehicle with monthly repayments of AUD $643 until February 2012. The interest rate on this loan was 9.3% (2010: 9%)

The remaining bank loans comprise drawdowns under a multi option credit facility of $6,600,000. The facility was reduced by $1.5 million in February 2011. At 30 June 2011 the Group met only one of its bank covenants. The covenant has since been waived and will be re-tested in December 2011. The facility expires on 31 December 2011. The Group has received a temporary increase of $300,000 to its overdraft facility up to 11 October 2011. The directors are confident of securing on-going funding. The interest rate on these facilities varied within the range of 4.40% to 5.25% for NZD drawdowns (2010: 4.35% to 4.75%), 6.38% to 6.65% for AUD denominated drawdowns (2010: 5.03% to 6.50%) and 1.97% to 2.07% for USD denominated drawdowns (2010: 1.98% to 2.09%). Refer to note 4 (d) for details of covenants.

Other loans

The advance from a director was repaid during the year.

The loan from Gresham Finance Limited was repaid during the year.

Non bank hire purchase loans have fixed interest charged at rates between 9.3% and 11.52%.

Bank overdrafts

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

Hire Purchase Agreements

The total minimum lease payments at 30 June under hire purchase agreements were as follows:

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Less than one year	189	132	-	-
Between two and five years	193	311	-	-
Over five years	-	-	-	-
Present value of liability	382	443	-	-
Add future interest	35	37	-	-
Total minimum lease payments	417	480	-	-

21. Contributed equity

	Shares		$000	
Parent and Group	30 June 2011	30 June 2010	30 June 2011 $000	30 June 2010 $000
Issued and fully paid up capital	219,140,673	39,132,263	27,981	19,437
Balance at beginning of the year	39,132,263	39,132,263	19,437	19,437
Shares issued during the year	180,008,410	-	8,544	-
Balance at end of year	219,140,673	39,132,263	27,981	19,437

All ordinary shares are authorised and rank equally with one vote attached to each fully paid ordinary share. Shares have no par value. The Company successfully organised a rights issue during the year which raised a net $8,544,000 in order to pay down debt and strengthen the balance sheet.

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 2011 is $0.005 for each warrant.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

22. Retained earnings and other reserves

	Group		Parent	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	$000	$000	$000	$000
Foreign currency translation reserve				
Balance at beginning of the year	(333)	(249)	-	-
Net exchange difference on translation of overseas subsidiaries	218	(84)	-	-
Balance at the end of the year	(115)	(333)	-	-
Asset revaluation reserve				
Balance at beginning of the year	2,194	2,183	-	-
Revaluation of properties	-	-	-	-
Deferred tax movement	11	63	-	-
Transfer to retained earnings	(56)	(52)	-	-
Balance at the end of the year	2,149	2,194	-	-
Retained earnings				
Balance at beginning of the year	(4,302)	(1,008)	(816)	1,063
Deficit for the year	(9,352)	(3,346)	(1,735)	(1,879)
Dividends paid	-	-	-	-
Transfer from asset revaluation reserve	56	52	-	-
Balance at the end of the year	(13,598)	(4,302)	(2,551)	(816)

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.

23. Dividends

	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	$000	$000	Cents	Cents
	Total dividend		Dividend per share	
No dividend was paid (2010 Nil).	-	-	-	-

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

24. Reconciliation of surplus (deficit) after taxation with cash generated from operating activities

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Deficit after tax:	(9,352)	(3,346)	(1,735)	(1,879)
Items not involving cash flows:				
Depreciation	1,002	990	-	-
Amortisation of intangible assets	234	149	-	-
Impairment of goodwill	2,780	-	-	-
Impairment of patents and development assets	577	564	-	-
Impairment of inventories	321	(8)	-	-
Impairment of fixed assets	195	-	-	-
Deferred tax	(875)	(250)	(152)	(27)
Impairment of subsidiaries	-	-	1,344	3,190
Dividend from subsidiaries	-	-	-	(1,750)
Restructuring costs	2,021	-	-	-
Other non cash items	52	5	-	(52)
	6,307	1,450	1,192	1,361
Items classified as investing activities:				
Loss on sale of property, plant and equipment and investments	-	3	-	-
Changes in working capital:				
Trade creditors and accruals	(501)	(1,147)	(27)	50
Trade debtors and prepayments	(9)	1,725	(34)	70
Inventory	1,238	1,005	-	-
Other	13	(6)	-	-
	741	1,577	(61)	120
Net cash outflow from operating activities	(2,304)	(316)	(604)	(398)

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

25. Earnings per share

Basic and diluted

Basic earnings per share is 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.

	30 June 2011	30 June 2010
Weighted average number of ordinary shares in issue	114,135,767	39,132,263
(i) Group result		
Deficit attributable to the shareholders of the Company	(9,352,000)	(3,346,000)
Basic and diluted earnings per share	(8.19 cents)	(8.55 cents)
(ii) Continuing activities		
Deficit attributable to the shareholders of the Company	(9,222,000)	(2,542,000)
Basic and diluted earnings per share	(8.08 cents)	(6.50 cents)
(iii) Discontinued activities		
Deficit attributable to the shareholders of the Company	(130,000)	(804,000)
Basic and diluted earnings per share	(0.11 cents)	(2.05 cents)

26. Contingent liabilities

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Guarantee to bankers of bank overdraft facilities for subsidiaries to a limit of	500	500	500	500
Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise	1,134	1,085	1,134	1,085
Guarantees to third parties from which it is anticipated that no material liabilities will arise	-	100	-	100
	1,634	1,685	1,634	1,685

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

27. Commitments

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Capital commitments				
Estimated commitments contracted for at balance date but not provided for	-	-	-	-
Operating lease commitments				
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows				
Within one year	1,446	1,389	-	-
Later than one year but not later than five years	2,183	2,959	-	-
Later than five years	37	376	-	-
	3,666	4,724	-	-

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, IF Farrant, SB Heal, P Hewitson, HJD Rolleston and R Rookes.

(b) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2011 and the year ended 30 June 2010 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 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Short term benefits	1,290	1,208	171	177
Total	1,290	1,208	171	177

Key management personnel have no entitlement to post employment benefits, other long term benefits, termination benefits or share based payments.

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

The Company borrowed $178,000 from a director. Details of the repayments and interest paid or payable is as follows:

	Amount owed at 1 July 2010 $000	Advanced $000	Amount owed at 30 June 2011 $000	Interest paid or payable $000
P Hewitson	178	0	0	13

Other than the payment of directors fees to directors and the payment of employee remuneration disclosed in note 28 (b) above, there were no transactions with directors and /or key management personnel.

(d) Transactions with Gresham Finance Limited

The Company borrowed $1,150,000 on 6 August 2009 and $1,500,000 on 11 May 2010 from Gresham Finance, a company associated with HJD Rolleston, a director and substantial security holder. The interest rate on this loan was 12% and the loan was repayable on demand. On 30 June 2010 the remaining balance owed to South Canterbury Finance Limited amounting to $1,040,000 was assigned by South Canterbury Finance Limited to Gresham Finance Limited. The interest rate on this loan was 15% and the loan was repayable by monthly instalments of $80,000. During the year the loan was repaid in full. Up to the date of repayment interest of $309,000 was incurred (2010: $150,000).

(e) Transactions with Asset Management Limited

Following the February 2011 earthquake in Canterbury, Asset Management Limited, a company associated with HJD Rolleston entered into a 12 month lease with an annual rental of $10,000 for 60 square metres of office space at the Mercer Stainless premises, 53 Lunns Road, Christchurch.

(f) Transactions with Murray & Company Limited

Following the February 2011 earthquake in Canterbury, Murray & Co Limited, a company associated with HJD Rolleston and R Rookes entered into a 4 month lease with an annual rental of $18,000 for 95 square metres of office space at the Mercer Stainless premises, 45 Lunns Road, Christchurch.

(g) Transactions with other related parties

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Income				
Interest charged to subsidiaries	-	-	-	790
Dividends received	-	-	-	1,750
Expenses				
Accounting fees incurred	-	-	59	65
Cash flows				
Advances to subsidiaries	-	-	(4,127)	(4,439)
Repayments from subsidiaries	-	-	1,699	4,606
Operating receipts from subsidiaries	-	-	633	967
Operating payments to subsidiaries	-	-	(83)	(81)

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

(h) Outstanding balances with other related parties

	Group		Parent	
	30 June 2011 $000	30 June 2010 $000	30 June 2011 $000	30 June 2010 $000
Subsidiaries				
Advances owed from subsidiaries	-	-	34,869	32,479
Advances owed to subsidiaries	-	-	1,343	1,136
Other amounts owed by subsidiaries	-	-	-	-

As disclosed in note 18, advances to subsidiaries were impaired by $1,331,000 (2010: $682,000). No other amounts have been written off or forgiven during the year. (2010: Nil).

(i) 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 2011 was 7.5% (2010: 7.5%).

29. Events after balance date

The bank has waived a covenant breach at June 2011 and will re-test covenants in December 2011. In September 2011 a second ranking interest bearing facility of $1.3m was provided by certain shareholders.

30 Disposals and discontinued operations

(a) Discontinued operations

On 30 June 2009, the business and certain assets of HE Perry Limited were sold for $1,000,000. The consideration was paid by the purchaser on 21 July 2009 and was applied to the reduction of bank debt. Accounts receivable are being collected and the remaining inventory being sold.

In 2009 the directors received a conditional offer for the purchase of the Mercer Middle East Limited business. The sale did not proceed and the decision was made to close the business.

Notes to the Financial Statements (continued)

For the year ended 30 June 2011

The results, cash flows and assets and liabilities of Old HEP Limited (formerly HE Perry Limited) and Mercer Middle East Limited disclosed as discontinued operations are as follows:

	Group	
	30 June 2011 $000	30 June 2010 $000
Revenue:		
Sale of goods and contract revenue	95	617
Other income	-	6
Total income	95	623
Expenses:		
Cost of inventory sold	240	1,039
Impairment of work in progress	-	209
Salaries and wages	-	245
Rental and operating leases	-	(11)
Depreciation and amortisation	-	(5)
Other expenses	33	359
Deficit before finance costs	(178)	(1,213)
Finance costs	-	(166)
Deficit before income tax	(178)	(1,047)
Income tax credit	(48)	(243)
Deficit after tax from discontinued operations	(130)	(804)

	Group	
	30 June 2011 $000	30 June 2010 $000
Cash flows from discontinued operations		
From operating activities	126	(338)
From investing operations	1	1,004
From financing activities	(128)	(903)

		Group	
	Notes	30 June 2011 $000	30 June 2010 $000
Assets of discontinued operations			
Inventory	14	50	358
Accounts receivable	12	72	220
Deferred taxation	17	970	946
Total assets		1,092	1,524
Liabilities of discontinued operations			
Trade and other payables	19	38	96
Total liabilities		38	96

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 on pages 11 to 50, which comprise the statements of financial position as at 30 June 2011, the statements of comprehensive income and 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 2011 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 consolidated 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.

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

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Independent Auditors' Report

to the shareholders of Mercer Group Limited

Opinion

In our opinion, the financial statements on pages 11 to 50:

(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 2011, and their financial performance and cash flows for the year then ended.

Emphasis of Matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of disclosures made in note 2(a) and on page 15 to the financial statements concerning the Company and Group's ability to continue as a going concern.

These financial statements have been prepared on a going concern basis, the validity of which depends on the securing of the ongoing funding.

These financial statements do not include any adjustments that may need to be made to reflect the situation should the Company and Group be unable to successfully achieve the above. Such adjustments may include assets being realised at other than the amounts at which they are currently recorded in the balance sheet. In addition, the Company and Group may have to provide for further liabilities that might arise and to reclassify certain non current assets as current.

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 2011:

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

(i) in our opinion, proper accounting records have been kept by the Company and the Group 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
21 September 2011

MERCER GROUP LIMITED

www.mercers.co.nz