

MERCER GROUP LIMITED		
Results for announcement to the market		
Reporting Period	Year to 30 June 2011	
Previous Reporting Period	Year to 30 June 2010	

	Amount (millions)	Percentage change
Revenue from continuing activities	30.4	-17.7%
Deficit from continuing activities after tax	(9.2)	-363%
Deficit attributable to security holders	(9.4)	-279%

Interim / Final Dividend	Amount per security	Imputed amount per security
None	N/A	N/A

Record Date	N/A
Dividend Payment Date	N/A

Comments	See below
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The Directors of Mercer Group Limited report an underlying trading EBIT loss for the year of \$3.4 million, which was slightly worse than the previous indication of negative \$2.6 - 3 million due to the continued under-performance of the Australian operation, and report a total deficit for the year ended 30 June 2011 of \$9.4 million. 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 announcement and in Appendix 1.

Following the appointment of Garry Diack as Chairman, the Directors have recently completed the comprehensive review of the business strategy and performance referred to in our Announcement dated 27th April 2011. 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 the Company will now commence a restructure of the Australian operations to re-align the business to an appropriate scale.

Following the restructure, the Company 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. They are pleased that Rodger Shepherd has taken on the role of restructuring and refocusing the Company and his remuneration package, which is set out in Appendix 2 (and remains subject to shareholder approval), is tied to the future performance of the Company.

The Company is close to finalising a funding package to conclude the restructure and ensure new management has funding to initiate change. We expect to announce final details in the next week.

The Company has, during the last 12 months, 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 Company is in breach of its interest cover covenants. This is being discussed with the bank. 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.

Trading Results of the Continuing Businesses

The continuing businesses comprise:

- Mercer Products – a manufacturer and distributor of kitchen, bathroom and laundry products in New Zealand and Australia;
- Mercer Stainless - a stainless steel fabricator and supplier of specialist equipment; and
- Mercer Medical – a supplier of sterilizer and disinfection equipment and related products and services.

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	2010
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.

Mercer Stainless

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.

Mercer Products

Sales of kitchen, bathroom and laundry products by Mercer 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

Mercer Medical's sales and profit declined in 2011. As noted in our previous report this business secured new orders worth \$1.3 million which will fall in the first quarter of 2012.

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

The Directors would like to take this opportunity to record the Board's appreciation for the contribution of the outgoing Chairman, Ian Farrant, over many years.

A handwritten signature in black ink, appearing to read 'Garry Diack', with a stylized flourish at the end.

Garry Diack
Chairman

For Further Information contact:
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64 29 626 8000

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CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$000	\$000
TOTAL INCOME FROM CONTINUING	30,433	37,167
OPERATIONS		
Expenses	<u>39,752</u>	38,897
Deficit before finance costs	<u>(9,319)</u>	(1,730)
Finance costs – net	<u>730</u>	852
Deficit before taxation	<u>(10,049)</u>	(2,582)
Income tax credit	<u>(827)</u>	(40)
Deficit after tax from continuing operations	<u>(9,222)</u>	(2,542)
Deficit from discontinued operations	<u>(130)</u>	(804)
DEFICIT AFTER TAX ATTRIBUTABLE		
TO SHAREHOLDERS	(9,352)	(3,346)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$000	\$000
Deficit for the year	(9,352)	(3,346)
Other comprehensive income		
Currency translation differences	<u>218</u>	(80)
Asset revaluation reserve movement	<u>11</u>	59
Other comprehensive income for the year, net of tax	<u>229</u>	(21)
Total comprehensive income attributable to the		
shareholders	(9,123)	(3,367)

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CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$000	\$000
EQUITY AT BEGINNING OF PERIOD	16,996	20,363
Foreign currency translation reserve movement	218	(80)
Asset revaluation reserve movement	11	59
Deficit for the period	(9,352)	(3,346)
Total comprehensive income	(9,123)	(3,367)
Issue of new shares	8,544	-
EQUITY AT END OF PERIOD	16,417	16,996

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	2011	2010
	\$000	\$000
EQUITY		
Contributed equity	27,981	19,437
Other reserves	2,034	1,861
Accumulated losses	(13,598)	(4,302)
TOTAL EQUITY	16,417	16,996
NON CURRENT LIABILITIES		
Borrowings	230	311
CURRENT LIABILITIES		
Bank overdrafts	219	261
Creditors and accruals	5,676	5,783
Employee entitlements	949	936
Derivative financial instruments	26	-
Borrowings due within 12 months	6,304	12,024
TOTAL CURRENT LIABILITIES	13,174	19,004
TOTAL LIABILITIES	13,404	19,315
TOTAL LIABILITIES AND EQUITY	29,821	36,311
NON CURRENT ASSETS		
Land	1,557	1,557
Buildings	3,515	3,626
Plant and equipment	4,264	5,203
Accounts receivable	-	2,601
Intangible assets	3,589	7,321
Deferred tax	4,225	3,334
TOTAL NON CURRENT ASSETS	17,150	23,642
CURRENT ASSETS		
Accounts receivable	6,846	4,702
Other debtors and prepayments	1,053	722
Derivative financial instruments	6	7
Taxation refund	5	6
Inventories	4,761	7,232
TOTAL CURRENT ASSETS	12,671	12,669
TOTAL ASSETS	29,821	36,311

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$000	\$000
OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	31,639	41,658
Interest received	-	3
Taxation received	-	40
	31,639	41,701
Cash was disbursed to:		
Payments to suppliers and employees	33,078	41,202
Interest on borrowings	806	712
Other interest	59	103
	33,943	42,017
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,304)	(316)
INVESTING ACTIVITIES		
Cash was provided from:		
Proceeds from sale of property, plant & equipment	7	5
Proceeds from sale of a business	-	1,000
	7	1,005
Cash was applied to:		
Purchase of property, plant & equipment	427	199
Patents and development activities	159	264
	586	463
NET CASH INFLOW / (OUTFLOW) FROM INVESTING ACTIVITIES	(579)	542
FINANCING ACTIVITIES		
Cash was provided from:		
Share issue	3,976	-
New borrowings	1,500	2,800
	5,476	2,800
Cash was applied to:		
Repayment of borrowings	2,540	2,675
	2,540	2,675
NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES	2,936	125
NET INCREASE (DECREASE) IN CASH HELD	53	351
Cash at beginning of period	(261)	(594)
Effect of exchange rate changes	(11)	(18)
CASH AT END OF PERIOD	(219)	(261)

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SEGMENTAL REPORTING

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

Stainless Fabrication

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

Mercer Products

This 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

This division supplies equipment and related products / services for sterilization, washing and disinfection.

Corporate

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

Primary reporting format – operating segments

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

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

Sales revenue and results by geographical location are not monitored by management.

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CONSOLIDATED OPERATING REVENUE
FOR THE YEAR ENDED 30 JUNE 2011

	Continuing Activities		Discontinued Activities	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Sales of goods and contract revenue	30,359	36,867	95	617
Other income	74	300	-	6
	30,433	37,167	95	623

CONSOLIDATED DEFICIT BEFORE TAX FOR THE YEAR ENDED 30 JUNE 2011 IS STATED AFTER CHARGING:

	Continuing Activities		Discontinued Activities	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
<i>Operating expenses:</i>				
Depreciation of property, plant & equipment				
– Buildings	110	117	-	-
– Plant & equipment	892	878	-	(5)
– Total depreciation	1,002	995	-	(5)
Amortisation of intangible assets				
– Patents and trademarks	16	48	-	-
– Development costs	218	101	-	-
– Total amortisation	234	149	-	-
Impairment of patents & development assets *	577	564	-	-
Impairment of fixed assets	195	-	-	-
Loss / (Gain) on sale of plant & equipment	-	3	-	-
Impairment of inventories	321	(8)	152	96
Foreign exchange (gain) / loss	121	-	1	7
Research and development expenditure	16	17	-	-
Bad debts written off	36	46	1	17
Impairment of receivables	38	(76)	-	(33)
Audit fees	121	120	-	-
Fees paid for other services by the Auditors	5	8	-	-
Directors' fees	174	159	-	-
Restructuring costs	4,801	-	-	-

*The impairment of patents and development assets can be analysed by business segment as follows:

- Stainless Fabrication \$164,000
- Corporate \$413,000

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SUBSIDIARIES

The principal trading subsidiaries at 30 June 2011, all of which are 100% owned and have a 30 June balance date, comprise:

Mercer Stainless Limited - a stainless steel fabricator, manufacturer & distributor of kitchen, bathroom and laundry products, manufacturer of materials handling equipment and supplier of washing and disinfection equipment

Mercer Products Pty Limited - a distributor of kitchen, bathroom and laundry products

Mercer Stainless Pty Limited - a manufacturer and supplier of materials handling equipment

CONSOLIDATED NET TANGIBLE ASSETS PER SECURITY

	Cents	
	2011	2010
Net tangible assets per share	5.85	24.72

EARNINGS PER SECURITY

	Cents	
	2011	2010
Earnings per share	-8.19	-8.55
Earnings per share – continuing activities	-8.08	-6.50
Earnings per share – discontinued activities	-0.11	-2.05

BANKING AND GOING CONCERN

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 balance date. At 30th June 2011 the Group was in breach of one of its banking covenants. 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.

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DISCONTINUED OPERATIONS

The business of HE Perry Limited was sold 30 June 2009. 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. The results of Old HEP Limited (formerly HE Perry Limited) and Mercer Middle East Limited are disclosed under discontinued operations as follows:

	2011	2010
	\$000	\$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	32	359
Deficit before finance costs	(177)	(1,213)
Finance costs net	-	(166)
Deficit before taxation	(177)	(1,047)
Income tax credit	(47)	(243)
Deficit after tax from discontinued activities	(130)	(804)
Cash flows from discontinued operations:		
From operating activities	126	(338)
From investing activities	1	1,004
From financing activities	(128)	(903)

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OTHER COMMENTS BY DIRECTORS

If no report in any section, state NIL. If insufficient space below, provide details in the pages attached to this report.

- (a) Material factors affecting the revenues and expenses of the group for the current full year
See commentary.....
- (b) Significant trends or events since end of current full year
See commentary.....
- (c) Changes in accounting policies since last Annual Report and/ or last Half Yearly Report to be disclosed
None.....
- (d) Critical Accounting Policies – Management believes the following to be critical accounting policies. That is they are both important to the portrayal of the Issuer's financial condition and results, as they require management to make judgments and estimates about matters that they are inherently uncertain
- (i) Intangible assets – judgements are required in relation to the technical feasibility of development projects, the intention to use or sell the assets, the existence of a market, the availability of resources to complete the developments and whether or not the development assets have been impaired.
 - (ii) Work in progress – judgements and estimation are required of total contract revenues and remaining costs to complete.
 - (iii) Deferred tax – future forecast taxable income is estimated in determining whether a deferred tax asset should continue to be recognised and the quantum of the asset. Consideration has been given to whether or not the shareholder continuity test is met taking into account current plans to issue shares after balance date.
 - (iv) Impairment testing – goodwill has 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.
- (e) Management's discussion and analysis of financial condition, result, and/or operations (optional) – this section should contain forward looking statements that should outline where these involved risk and uncertainty.
See commentary
- (f) Other Comments
NIL.....

ANNUAL MEETING (If full year report)

- (a) To be held at: Auckland
- (b) Date and Time: To be advised
- (c) Approximate date of availability of Annual Report: September 30th

If this full year report was approved by resolution of the Board of Directors, please indicate date of meeting:

.....
(Signed by) Authorised Officer of Listed Issuer

.....
(date)

Mercer Group Limited

Appendix 2 - Summary of Chief Executive Remuneration Package for Rodger Shepherd

Base salary - \$300,000 per annum together with standard associated benefits.

Share entitlement equivalent to 1.00% of the total shares on issue (immediately prior to issue) on the first, second and third anniversary of appointment.

Options to purchase:

- 18,181,818 shares at \$0.055 per share on 2 February 2013;
- 14,285,714 shares at \$0.070 per share on 2 February 2014; and
- 11,764,706 shares at \$0.085 per share on 2 December 2014.

The options component of the remuneration package is subject to shareholder approval at the Company's upcoming annual general meeting.