

Mercer Group Limited

For the year ended 30 June 2018

Mercer Group Limited Group Financial Statements Year ended 30 June 2018

Mercer Group Limited

For the year ended 30 June 2018

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Mercer Group Limited

For the year ended 30 June 2018

Directors' Report

In the opinion of the directors of Mercer Group Limited, the financial statements and the notes, on pages 4 to 38:

- comply with New Zealand Equivalents to International Financial Reporting Standards and fairly represents the financial position of the Group as at 30 June 2018 and the results of their operations and cash flows for the year ended on that date.
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

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

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

The directors are pleased to present the financial report, incorporating the financial statements of Mercer Group Limited for the year ended 30 June 2018.

The Annual Financial Statements presented are signed for and on behalf of the Board, and were authorised for issue on 29 August 2018.



John Dennehy, Board Chair.



Paul Smart, Director.

Group Statement of Comprehensive Income

For the year ended 30 June 2018

	Notes	30 June 2018 \$000	30 June 2017 \$000
Revenue			
Sale of goods and contract revenue	6	28,819	26,622
Other income	7	15	234
Total income		28,834	26,856
Expenses			
Changes in inventories of finished goods and work in progress		(18,587)	(14,835)
Salaries and wages	9	(9,602)	(9,636)
Rental and operating leases		(411)	(439)
Other expenses	8	(4,452)	(3,747)
Depreciation	15	(388)	(437)
Amortisation	16	(22)	(22)
Impairment of intangible assets	16	(822)	(250)
Restructuring costs		-	(1,421)
Deficit from operations before finance costs and taxation		(5,450)	(3,931)
Finance costs		(490)	(723)
Deficit from operations after finance costs and before taxation		(5,940)	(4,654)
Income tax expense	10	(1,901)	(2,308)
Deficit from operations after finance costs and taxation		(7,841)	(6,962)
Other comprehensive (loss) income			
Items that may be subsequently charged or credited to profit and loss			
Currency translation differences on overseas subsidiaries	22	(69)	(13)
Other comprehensive (loss) for the year, net of tax		(69)	(13)
Total comprehensive (loss) for the year		(7,910)	(6,975)
Attributable to:			
- Owners of the parent		(7,910)	(6,975)
Total		(7,910)	(6,975)
Basic earnings per share:			
Deficit per share attributable to shareholders of the company (cents)	24	(12.60)	(16.96)
Fully diluted earnings per share:			
Deficit per share attributable to shareholders of the company (cents)	24	(12.60)	(16.96)

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



Group Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 \$'000	30 June 2017 \$'000
ASSETS			
Current assets			
Cash and bank balances	11	671	827
Accounts receivable	12	4,403	3,750
Other debtors and prepayments	12	397	1,229
Finance lease receivable	13	13	-
Inventories	14	631	3,490
Total current assets		6,115	9,296
Non current assets			
Other debtors and prepayments	12	-	816
Property, plant and equipment	15	6,421	6,683
Intangible assets	16	4,241	4,685
Finance lease receivable	13	303	-
Deferred tax asset	17	545	2,446
Investment in associate		-	16
Total non current assets		11,510	14,646
Total assets		17,625	23,942
LIABILITIES			
Current liabilities			
Bank overdraft	11	947	1,064
Derivative financial instruments		27	-
Trade and other payables	19	4,935	4,595
Employee entitlements		986	1,091
Borrowings	20	370	1,309
Total current liabilities		7,265	8,059
Non current liabilities			
Borrowings	20	5,916	6,373
Total liabilities		13,181	14,432
Net assets		4,444	9,510
EQUITY			
Share capital	21	44,366	41,522
Other reserves	22	3,000	3,069
Retained earnings	22	(42,922)	(35,081)
Total equity		4,444	9,510

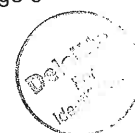
The above Group Statement of Financial Position should be read in conjunction with the accompanying notes.

Group Statement of Movements in Equity

For the year ended 30 June 2018

Attributable to the owners of the Group						
Notes	Share capital \$'000	Retained earnings \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Asset revaluation reserve \$'000	Total equity \$'000
Balance at 30 June 2016	33,475	(28,119)	110	-	2,871	8,337
Foreign currency translation reserve movement	22	-	-	(13)	-	(13)
Deficit for the year	22	-	(6,962)	-	-	(6,962)
Total comprehensive income for the year		-	(6,962)	(13)	-	(6,975)
Value of employee	22	-	101	-	-	101
Capital raising costs		(352)	-	-	-	(352)
Issue of new shares	21,22	8,399	-	-	-	8,399
Balance at 30 June 2017	41,522	(35,081)	211	(13)	2,871	9,510
Foreign currency translation reserve movement	22	-	-	(69)	-	(69)
Prior year adjustment		-	-	-	-	-
Deficit for the year	22	-	(7,841)	-	-	(7,841)
Total comprehensive income for the year		-	(7,841)	(69)	-	(7,910)
Capital raising costs	21	(120)	-	-	-	(120)
Issue of new shares	21	2,964	-	-	-	2,964
Balance at 30 June 2018	44,366	(42,922)	211	(82)	2,871	4,444

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



Group Statement of Cash Flow

For the year ended 30 June 2018

	Notes	30 June 2018 \$000	30 June 2017 \$000
Operating activities			
Deficit after tax		(7,841)	(6,962)
Income tax recognised in Group Statement of Comprehensive Income		1,901	2,308
Finance costs		490	723
Depreciation and amortisation	15,16	410	459
Inventory provision		1,441	983
Debtors provision		(467)	
Provision (cost) for restructuring continuing operations		-	(618)
Loss gain on sale of plant & equipment		-	-
Share based payment	28	-	101
Impairment of intangible assets	16	822	250
Derivative financial instruments		27	-
Changes in working capital	25	3,115	(1,227)
Net cash outflow before finance costs		(102)	(3,983)
Interest paid		(490)	(723)
Net cash outflow from operating activities		(592)	(4,706)
Investing activities			
Cash was provided (to) from :			
Purchase of property, plant and equipment	15	(138)	(143)
Purchase of patents and development activities (net)	16	(399)	(58)
Finance lease	13	(316)	-
Interest received on finance lease	7	15	-
Proceeds from disposal of property, plant and equipment	15	12	51
Purchase of Haden & Custance		-	(1,500)
Cash from Haden & Custance		-	1,679
Net cash from investing activities		(826)	29
Financing activities			
Cash was provided from (to):			
Capital raising costs	21	(120)	(72)
Issue of new shares	21	2,964	3,869
Drawdown (repayment) of borrowings	20	(1,396)	1,135
Net cash inflow from financing activities		1,448	4,932
Net (decrease) increase in cash held		30	255
Cash (Overdraft) at beginning of the year		(237)	(479)
Effect of exchange rate changes		(69)	(13)
Cash (overdraft) at the end of the year	11	(276)	(237)

The Group Statement of Cash Flows is exclusive of GST.

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



Notes to the Group Financial Statements

For the year ended 30 June 2018

1. General information

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

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

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

- **Stainless Fabrication:** This division includes workshops in Christchurch and New Plymouth operated by Mercer Stainless Limited. The primary business is the design and manufacture of proprietary equipment mainly for the dairy and wine sectors. It has also operated the group's food processing and packaging brands.
- **Haden & Custance:** This division designs, manufactures, delivers and services automated robotic handling systems to a range of industries. In the current year the existing Aico, Beta and Titan Slicer product ranges have been manufactured at H&C as well as their own custom solutions from this division.
- **Mercer Technologies:** The division manages the research and development of the Mercer Group. Currently focused on commercializing the S-Clave.

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

The financial statements have been approved for issue by the Board of Directors on 29 August 2018.

2. Summary of significant accounting policies

(a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Information on the application of the going concern assumption is included in Note 3.

These financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

Entities reporting

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

Statutory base

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

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

Critical accounting estimates and judgements

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



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the Company and all entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee; and
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee where facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the company ceases to control the subsidiary.

Profit or loss is attributed to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated in full on consolidation.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Costs of acquisitions are expensed as incurred.



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount increased or decreased to recognise the investors' share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

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

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

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

(c) Segment reporting

NZ IFRS 8 Operating Segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker has been identified as the Board of Directors who review the Group's internal reporting in order to assess performance and to allocate funding and resources. Management has determined the operating segments based on these reports.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the subsidiaries' operations are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is Mercer Group Limited's functional currency and the Group's presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(iii) Group companies

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

- (a) assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position; and
- (b) income and expenses are translated at average exchange rates; and
- (c) all resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

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

(e) Revenue recognition

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

(i) Sales of goods

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

(ii) Construction contracts

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

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

For fixed price contracts, the stage of completion is measured by reference to costs incurred to date as a percentage of estimated total contract costs for each contract. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus the percentage of fees earned. The percentage of fees earned is measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

(iii) Grants

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

When the requirements under the Grant agreement have been met, grants received relating to costs are recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Where the grant is funding an asset the grant is credited against the asset value.

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

(iv) Interest income

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

(v) Dividend income

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

(vi) Royalty income

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

(f) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

(g) Goods and Services Tax (GST)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(h) Leases

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

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

(i) Impairment of non-financial assets

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life and intangible assets not ready for use 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 Group Statement of Financial Position.



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

(k) Trade receivables

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

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

Loans and receivables

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

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

(l) Inventories

(i) Raw materials and finished goods

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

(ii) Contract work in progress

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

(m) Investments and other financial assets

Financial assets at fair value through profit and loss

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

(n) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. Changes in the fair value of derivative instruments are recognised immediately in the profit or loss.

Derivatives are recognised on trade date and derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

(o) Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market (e.g. over the counter derivatives) is determined using valuation techniques.

(p) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least every five year valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

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

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

(q) Intangible assets

(i) Goodwill

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

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



Notes to the Group Financial Statements cont.

For the year ended 30 June 2018

(ii) Research and development

Expenditure on research activities, net of any grants receivable, is recognised in the profit or loss as an expense when it is incurred.

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

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

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

Other intellectual property expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intellectual property recognised as an asset, less impairments if any, are amortised over its useful economic lives, not exceeding twenty years.

(iii) Patents, trademarks and licences

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

(r) Trade and other payables

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

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

(s) Borrowings

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

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

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(t) Provisions

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



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to passage of time is recognised as interest expense.

(u) Share capital

Ordinary shares are classified as equity.

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

(v) Employee entitlements

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

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

(ii) Long service leave

The liability for long service leave is recognised in the employee entitlements liability, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Short-term employee benefits

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

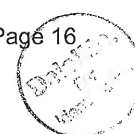
(w) Dividends

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

(x) Earnings per share

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

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



Notes to the Group Financial Statements cont.

For the year ended 30 June 2018

(y) Share based payments

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

At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment in equity.

When the vesting conditions are met the company issues new shares. The proceeds received net of any directly attributable transaction costs are added to share capital and the balance in the equity settled share based payments reserve is also transferred to share capital.

(z) Changes in accounting policies

There have been no changes in accounting policies from those applied by the Group in the financial statements as at 30 June 2018. No new accounting standards or interpretations have been adopted during the year which have had a material impact on these financial statements

(aa) New accounting standards and interpretations

The accounting policies set out in these financial statements are consistent for all periods presented in these financial statements.

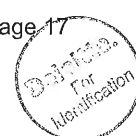
New or revised standards and interpretations that have been approved but are not yet effective have not been adopted by the group for the annual reporting period ended 30 June 2018. The adoption of these standards and interpretations is not expected to have a material recognition or measurement impact on the group's financial statements unless otherwise stated below. These will be applied when they become mandatory. The significant items are:

- NZ IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements.

In cases where the fair value option is taken for financial liabilities, the component of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group intends to apply this standard from 1 July 2018. The Group is yet to assess NZ IFRS 9's full impact.

- NZ IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The group is yet to assess NZ IFRS 15's full impact, however point of revenue recognition for construction contract revenue could change under this new standard which may result in significant measurement differences between years. The group will apply this standard from 1 July 2018.

- NZ IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. NZ IFRS 16 addresses recognition of leases. It replaces the current lease guidance in NZ IAS 17 Leases and is applicable to all entities with leases. It removes the distinction between operating and finance leases with the right to use an asset under operating leases along with the associated obligations to pay rentals recorded as assets and liabilities respectively. However, there are some exemptions for short term leases and leases of low value assets. The group is yet to assess NZ IFRS 16's full impact. The group will apply this standard from 1 July 2019.



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

3. Critical accounting estimates and judgements

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

Intangible Assets

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

Work in Progress

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

Deferred Tax Asset

The Group and Company have recognised a deferred tax asset, a component of which relates to New Zealand tax losses available for offset against future taxable profits, as detailed in Note 17. Management has applied consideration around the shareholder continuity rule and the probability of generating future taxable profits in the foreseeable future in determining whether a deferred tax asset should continue to be recognised and the quantum of this asset.

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 to which goodwill is allocated. Goodwill impairment testing including key assumptions are detailed in Note 16.

Fair Value Measurement and Valuation Processes

Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or liability, the Group uses market observable data to the extent it is available. The Group engages third party qualified valuers to perform the valuation. Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 4 and 15.

Cash flow forecasts and capital adequacy considerations

The financial statements have been prepared using the going concern assumption. For the year ended 30 June 2018 the Group recorded a net deficit after finance costs and taxation of \$7,841,000. The net loss includes a number of costs relating to the rationalisation of the business including restructuring of the machines division. The net loss also includes impairment and write-down costs as a result of the review of the Titan business.

Prior to balance date the Company renegotiated its banking facilities, which include covenants which first become applicable as at 31 December 2018. The Company maintains two term facilities with limits of \$5,000,000 and \$1,316,480. Both these facilities mature on 30 September 2019. The Company also had a total of \$1,250,000 overdraft facilities with \$303,000 available limit at balance date, the Group also had cash balances of \$671,000 on hand as at balance date. As at balance date the available limit and cash provided liquidity of \$974,000.

Notes to the Group Financial Statements cont.

For the year ended 30 June 2018

Included in the overdraft facilities is a temporary facility which was \$1,500,000 at 30 June 2017, this has been reduced to \$250,000 as at 30 June 2018. The balance of the temporary facility expires in September 2018. The Company is planning to review capital requirements at the half year of 2018 depending on growth requirements to support its businesses. During the year the Company repaid in full a \$306,000 loan to Gresham Finance Limited with the discharge of all financing obligations. Gresham Finance is an affiliated company of Humphry Rolleston, a former director and current majority shareholder.

During the year a strategy change was implemented which broadens Haden & Custance (H&C) sales focus from cheese handling equipment to other protein sectors; poultry and red meat. H&C have identified demand for automation solutions that H&C offer, particularly in North America. Also during the year H&C has invested in its sales resource in North America to execute on the strategy. With the banking facilities renegotiated, the board has approved a budget and cash flow forecast that shows the Group returning to profitability and positive operating cash flow for the year ended 30 June 2019. Key assumptions to this forecast is revenue growth of at least 10%, operational expenditure reduction reflecting the restructured operations and capital expenditure requirements. Funding arrangements noted above are assumed to continue throughout the forecast period. The Group has an EBITDA covenant to be tested at 31 December 2018 and then at 30 June 2019. The Directors believe the going concern assumption is valid and have reached this conclusion having regard to the circumstances which they consider likely to affect the Group during the period of at least one year from the date these financial statements are approved. A change of 10% on revenue maintaining the same margins will keep the Group within the bank covenants.

The Directors remain confident that the factors above, and an improved operating cashflow, will support the business in the future. Therefore the Directors believe that it continues to be appropriate to prepare financial statements on a going concern basis.

While the Directors remain confident as to the Group's future, if the Group was unable to continue as a going concern, to operate and pay debts as and when they become due, adjustments would have to be made to reflect the situation that assets may need to be realised and liabilities extinguished other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded.

4. Financial risk management

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

The Group may use derivative financial instruments such as forward foreign exchange contracts to hedge certain foreign currency risk exposures. Derivatives are exclusively used for hedging purposes (while hedge accounting is not applied as the Group does not meet the hedge accounting criteria), i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange to determine market risk and aging analysis for credit risk.

The Board provides a framework for overall risk management which identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management covering specific areas such as exchange rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

The Group holds the following financial instruments:

	Cash / Loans and receivables \$000	Financial assets at fair value through profit and loss \$000	Financial liabilities at fair value through profit and loss \$000	liabilities held at amortised cost \$000
Group 2018				
Cash and cash equivalents	671	-	-	-
Trade receivables	4,403	-	-	-
Receivable from associate and other debtors	329	-	-	-
Finance lease receivables	316	-	-	-
Trade and other payables	-	-	-	(4,935)
Derivative financial instruments	-	-	-	(27)
Borrowings and overdraft	-	-	-	(7,233)
	5,719	-	-	(12,195)
Group 2017				
Cash and cash equivalents	827	-	-	-
Trade receivables	3,750	-	-	-
Receivable from associate and other debtors	1,243	-	-	-
Deferred consideration for sale of Interiors Division	370	-	-	-
Trade and other payables	-	-	-	(4,595)
Borrowings and overdraft	-	-	-	(8,746)
	6,190	-	-	(13,341)

(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 economically hedge these risks as they arise. The Group uses forward foreign exchange currency contracts to manage these exposures. As at 30 June 2018 the Group had \$1,479,000 (2017: NIL) of foreign exchange risk contracts.

The following table shows the sensitivity of the Group's after tax profit and equity to a movement in the exchange rate of +/-10% with all other variables held constant, which the directors consider reasonably possible.

Group - \$000		+10% and \$000		-10% and \$000	
	Foreign currency amount assets (liabilities)	Post tax Profit Increase (decrease)	Equity	Post tax Profit Increase (decrease)	Equity
30 June 2018	635	(64)	(64)	64	64
30 June 2017	1,017	(102)	(102)	102	102

Concentrations of foreign currency exposure

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

	30 June 2018 \$000	30 June 2017 \$000
Cash		
US Dollar	137	-
Trade receivables		
UK Pound	-	76
Australian dollar	3	401
United States dollar	737	408
Canadian dollar	-	199
Euro	-	41
Trade payables		
Australian dollar	(150)	(108)
United States dollar	(58)	-
Euro	(7)	-
Derivative Financial Instruments		
United States dollar	(27)	-
	635	1,017



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Mercer Group Limited can enter into interest rate swaps and forward rate agreements to manage its interest rate risk although no such instruments are in place at balance date (2017: Nil).

The following table shows the sensitivity of the Group's after tax profit and equity to a movement in interest rates of +/-1 percentage point (pp) which the directors consider reasonably possible. The total amount of interest bearing debt at balance date of the Group on which interest is not fixed is \$7,233,000 (2017: \$7,693,000).

Group	\$'000	+1 pp and \$'000		-1 pp and \$'000	
	Carrying amount	Post tax profit	Equity	Post tax profit	Equity
Financial liabilities					
30 June 2018	7,233	(51)	(51)	51	51
30 June 2017	7,693	(54)	(54)	54	54

(b) Credit risk

In its normal course of business the Group is subject to, and manages its exposure, to credit risk from trade debtors and transactions with financial institutions. The Group manages its exposure to this credit risk. Limits on exposure with counterparties have been set and are monitored on a regular basis. The Group enters into financial instruments with various counterparties in accordance with established limits as to credit rating and dollar limits and does not require collateral or other security to support the financial instruments. The carrying amounts of financial assets recognised in the Statement of the Financial Position best represents the Group's maximum exposure to credit risk at the reporting date, along with guarantees in Note 26.

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

At 30 June 2018 the Group had no exposure to any significant debtor greater than 10% of net equity (2017: NIL exposure).

(c) Liquidity risk

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



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

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

- BNZ Bank Loans. \$6,072,000 (including interest and principle) is due between one and two years. The principle balance is \$6,286,000 (2017: \$6,629,000). See Note 20.

Contingent liabilities disclosed in Note 26 amount to \$3,904,000 (2017: \$5,069,000). If these amounts become payable, the liabilities would fall due in less than 12 months.

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

	Effective interest rate	Balance at 30 June	Less than one year \$000	Between one and two years \$000	Between two and five years \$000	Total cashflow \$000
30 June 2018						
Bank loans & Overdrafts	6.70%	7,233	1,686	6,072	-	7,758
Trade and other payables		4,935	4,935	-	-	4,935
Total		12,168	6,621	6,072	-	12,693
30 June 2017						
Bank loans & Overdrafts	6.07%	7,693	1,405	6,811	-	8,216
Other loans	4.63%	349	358	-	-	358
Trade and other payables		4,595	4,595	-	-	4,595
Gresham deferred payable	13.10%	398	450	-	-	450
Gresham Finance loan	12.00%	306	306	-	-	306
Total		13,341	7,114	6,811	-	13,925

The Group was compliant with banking covenants at 30 June 2018.

(d) Capital risk management

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

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

	30 June 2018 \$000	30 June 2017 \$000
Equity \$'000	4,444	9,510
Total assets \$'000	17,625	23,942
Equity Ratio	25.2%	39.7%

(e) Fair value hierarchy

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

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

5. Segment information

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

Stainless Fabrication: This division includes workshops in Christchurch and New Plymouth operated by Mercer Stainless Limited. The primary business is the design and manufacture of proprietary equipment mainly for dairy and wine sectors. It has also operated the groups food processing and packaging brands.

Haden & Custance: This division designs, manufactures, delivers and services automated robotic handling systems to a range of industries. In the current year the existing Aico, Beta and Titan Slicer product ranges have been manufactured by H&C, as well as their own customised solutions from this division.

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

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. Goodwill previously included in Corporate has been allocated to the relevant reportable segment.

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

	30 June 2018			30 June 2017		
	Total sales of goods and contract revenue	Segment result (EBITDA)	Segment assets	Total sales of goods and contract revenue	Segment result (EBITDA)	Segment assets
	\$000	\$000	\$000	\$000	\$000	\$000
Stainless Fabrication	18,514	1,055	1,270	21,570	(298)	892
Haden & Custance	12,503	(1,595)	2,919	8,222	(1,626)	5,697
Mercer Technologies	6	5	3,891	65	28	3,877
Corporate	-	(887)	9,544	-	(1,576)	13,476
Intersegment eliminations	(2,204)	-	-	(3,235)	-	-
Total sales, EBITDA, assets	28,819	(1,422)	17,624	26,622	(3,472)	23,942
Depreciation and amortisation	-	(410)	-	-	(459)	-
Finance costs	-	(490)	-	-	(723)	-
Inventory Adjustments	-	(1,938)	-	-	-	-
Impairment of Intangible Assets	-	(822)	-	-	-	-
Impairment of tangible Assets	-	(857)	-	-	-	-
Income tax credit (charge)	-	(1,901)	-	-	(2,308)	-
Total sales, deficit after tax,	28,819	(7,841)	17,624	26,622	(6,962)	23,942

Customers larger than 10% of total group revenue in accordance with NZ IFRS 8.34 :

	30 June 2018 \$000	30 June 2017 \$000
Customer A	4,284	3,792
Customer B	3,518	3,479

Properties, deferred tax balances and certain development assets in progress have been included in the Corporate Transactions between segments are accounted for using the same accounting policies as set out in these financial statements. The intersegment eliminations are predominately sales between Stainless Fabrication and Haden & Custance.

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

Depreciation and amortisation analysed by segment was:

	30 June 2018 \$000	30 June 2017 \$000
Stainless Fabrication	210	312
Haden & Custance	97	67
Mercer Technologies	75	19
Corporate	27	61
Total	410	459

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

	30 June 2018 \$000	30 June 2017 \$000
Stainless Fabrication	1,122	939
Haden & Custance	258	706
Mercer Technologies	3,891	3,855
Corporate	5,694	6,700
Total	10,965	12,200

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

	30 June 2018 \$000	30 June 2017 \$000
New Zealand	10,964	12,200
Australia and USA	1	-
Total	10,965	12,200

6. Sale of goods and contract revenue

	30 June 2018 \$000	30 June 2017 \$000
Sale of goods	-	216
Construction contract revenue	28,819	26,406
Total	28,819	26,622

7. Other Income

	30 June 2018 \$000	30 June 2017 \$000
Other	15	234
Total	15	234

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

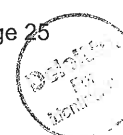
8. Other expenses

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

	Notes	30 June 2018 \$000	30 June 2017 \$000
Foreign exchange (gains)/losses		25	(170)
Advertising		88	73
Movement in doubtful debts provision	12	(467)	51
Bad debts written off		303	-
Impairment of other debtors		749	-
Communication costs		101	101
Postage, printing and stationery		75	111
Bank charges		188	147
Electricity costs		136	108
Employee on-costs			
Superannuation		88	97
Accident Compensation premiums		36	50
Insurance		400	341
Vehicle expenses		139	112
Directors fees	28	154	104
Consultancy fees		188	490
Legal		32	81
Repairs and maintenance		781	634
Recruitment		53	43
Staff amenities, safety & training		236	187
Share-based payment expense		-	101
Research and development		31	121
Subcontractors		-	26
Travel and accommodation		477	452
Entertainment		21	16
Fees paid to Auditors (Deloitte Limited)			
Taxation services		-	6
Advisory services - New Accounting Standard Workshop		10	2
Other assurance services		12	7
Audit of financial statements - relating to prior year		18	25
Audit of financial statements - relating to current year		65	90
Other expenses		513	341
Other expenses from continuing operations		4,452	3,747

9. Salaries and wages

Salaries and wages exclude the following amounts that have been recovered into labour for internally generated development assets \$155,000 (2017: \$156,000).



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

10. Income tax

	Notes	30 June 2018 \$000	30 June 2017 \$000
(a) Income tax charge			
Current tax		-	-
Deferred tax	17	1,901	2,308
Income tax charge		1,901	2,308

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Deficit before tax expense		(5,940)	(4,654)
Tax at the New Zealand rate of 28%		(1,663)	(1,303)
Prior year tax adjustment		246	314
Tax losses forfeited		-	2,118
Expenditure not deductible for tax		764	116
Current year tax (profit) losses in Australia and USA not recognised		(33)	81
Tax losses not recognised		2,587	982
Other		-	-
Income tax charge		1,901	2,308
Total income tax charge		1,901	2,308

(c) Tax Losses

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

The Group's shareholding continuity for the 2010 and earlier income years is less than the required threshold of 49% following the rights issue in November 2016. Therefore the Group's tax losses for the 2010 and earlier income years were forfeited in the 2017 financial year.

In 2018, the group has decided to derecognise a deferred tax asset of \$1,901,000. While the directors remain confident of generating taxable profits in the future for the reason outlined in note 3, it has been deemed appropriate to take the benefits of the tax losses as profits are generated.

At 30 June 2018 there were \$12,084,000 (2017:\$12,171,000) of unrecognised Australian tax losses, representing a tax benefit of \$3,625,000 (2017: \$3,651,000).

At 30 June 2018 there were \$19,408,000 (2017:\$10,171,000) of unrecognised New Zealand tax losses, representing a tax benefit of \$5,434,000 (2017: 2,848,000).

(d) Imputation credit account

	30 June 2018 \$000	30 June 2017 \$000
Credits available to shareholders of the company	-	-

11. Cash and bank balances

	30 June 2018 \$000	30 June 2017 \$000
Cash at bank and in hand	671	827
Total cash and bank balances	671	827
Less bank overdrafts	(947)	(1,064)
Cash and cash equivalents per cash flow statement	(276)	(237)

Bank overdrafts

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



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

12. Accounts receivable, other debtors and prepayments

	30 June 2018 \$000	30 June 2017 \$000
Current		
Trade receivables	4,472	4,286
Less provision for doubtful receivables	(69)	(536)
Total accounts receivables	4,403	3,750
Impairment provision		
Provision for doubtful debts at 1 July	(536)	(485)
Decrease (Increase) in provision	467	(51)
Provision for doubtful debts at 30 June	(69)	(536)
Past due and impaired receivables		
1 to 3 months	-	-
Over 3 months	69	536
	69	536
Past due but not impaired receivables		
1 to 3 months	4,400	3,686
Over 3 months	3	64
	4,403	3,750

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

	30 June 2018 \$000	30 June 2017 \$000
Current		
Other debtors and prepayments		
Other debtors	329	602
Deferred consideration for sale of Interiors Division	-	370
Receivables from Associate	-	114
Prepayments	68	143
Total	397	1,229
Long term		
Other debtors and prepayments		
Receivables from Associate	-	527
Prepayments	-	289
Total	-	816

Included in long term other debtors and prepayments in 2017 are S-Clave licencing costs that have been transferred to intangible assets in 2018.

13. Finance lease receivable

	30 June 2018 \$000	30 June 2017 \$000
Current Finance lease receivable	13	-
Non Current Finance lease receivable	303	-
	316	-

The Group entered into a finance lease arrangement for multiple Silo's. The term of the lease is 16 years. Lease payments outstanding \$624,720 which includes unearned income of \$323,360 at an effective interest rate 11.7%

14. Inventories

	30 June 2018 \$000	30 June 2017 \$000
Construction contracts		
Total aggregate costs incurred and recognised profits (less recognised losses) to date	285	1,015
Less: progressive billings	(2,066)	(1,386)
Net work in progress for ongoing contracts	(1,781)	(371)
Raw materials and components	638	1,022
Finished goods	1,774	2,839
Total inventories	631	3,490

The provision relating to inventories which have been written down to estimated net realisable value amounted to \$2,523,000 (2017: 1,082,000).

Notes to the Group Financial Statements con

For the year ended 30 June 2018

15. Property, plant and equipment

	Freehold land \$000	Buildings \$000	Plant and equipment \$000	Total \$000
Group				
At 1 July 2016				
Cost/Valuation	2,654	2,837	8,731	14,222
Accumulated depreciation	-	-	(7,441)	(7,441)
Net book value	2,654	2,837	1,290	6,781
Year ended 30 June 2017				
Opening net book value	2,654	2,837	1,290	6,781
Additions	-	-	143	143
Additions from Haden and Custance acquisition	-	-	247	247
Depreciation	-	(86)	(351)	(437)
Disposals	-	-	(51)	(51)
Closing net book value	2,654	2,751	1,278	6,683
At 30 June 2017				
Cost/Valuation	2,654	2,837	8,921	14,412
Accumulated depreciation	-	(86)	(7,643)	(7,729)
Net book value	2,654	2,751	1,278	6,683
Year ended 30 June 2018				
Opening net book value	2,654	2,751	1,278	6,683
Additions	-	-	138	138
Depreciation	-	(85)	(303)	(388)
Disposals	-	-	(12)	(12)
Closing net book value	2,654	2,666	1,101	6,421
At 30 June 2018				
Cost/Valuation	2,654	2,837	8,910	14,401
Accumulated depreciation	-	(171)	(7,809)	(7,980)
Net book value	2,654	2,666	1,101	6,421

Land and buildings at 53 Lunns Road, Christchurch was revalued to \$4,250,000, less \$857,000 worth of estimated earthquake repair costs on 30 June 2016. Land and buildings at Corbett Rd, Bell Block was revalued to \$2,100,000 on 30 June 2016. The values were determined by independent registered valuers, CBRE (Christchurch) Limited and Telfer Young (Taranaki) Limited, on the basis of open market value for the highest and best use for the properties. The primary approach used by the valuers was the investment approach which involves capitalising the net market income at an appropriate market derived rate of return to reflect the use, demand and risk associated with the properties and includes comparison with rental and sales evidence of other similar properties. The carrying amounts of land and buildings are not significantly different from their fair value at 30 June 2018.

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

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

	30 June 2018 \$000	30 June 2017 \$000
Cost	3,026	3,026
Accumulated depreciation	(1,171)	(1,080)
Net book value	1,855	1,946

Fair value hierarchy

The land and buildings are categorised as Level 3 in the fair value hierarchy. During the year there were no transfers between the levels of fair value hierarchy.



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

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

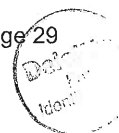
Asset classification description and valuation approach	Fair value at 30 June 2016 \$000	Inputs used to measure fair value	Range of significant unobservable inputs	Weighted average
Valuer				
Land				
Income	Telfer Young CBRE	2,654	Rental Growth	2.00%
Capitalisation approach and discounted cashflow approach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

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

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

Fair value measurement sensitivity to
significant unobservable inputs:

Unobservable inputs within the discounted cashflow analysis		Increase in input	Decrease in input
Discount rate	The rate, determined through analysis of comparable market-related sales transactions, which is applied to a property's future net cash flows to convert those cash flows into a present value.	Decrease	Increase
Terminal yield	The rate which is applied to a property's sustainable net income at the end of an assumed holding period to derive an estimated future market value.	Decrease	Increase
Rental growth	The annual growth rate applied to the market rent over an assumed holding period.	Increase	Decrease
Unobservable inputs within the income capitalisation approach			
Capitalisation rate	The rate of return, determined through analysis of comparable market related sales transactions, which is applied to the market rent to assess a property's value.	Decrease	Increase
Net market income per m2	The valuer's assessment of the net market income attributable to the property.	Increase	Decrease
Unobservable inputs within the capitalisation and discounted cashflow approach			
Earthquake repair costs	Specialist estimate of earthquake repair costs to bring building to required standard.	Decrease	Increase



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

16. Intangible assets

	30 June 2018 \$000	30 June 2017 \$000
Goodwill		
Cost	1,125	1,375
Impairment	(769)	(250)
Net book value	356	1,125
Opening balance	1,125	1,024
Acquisition	-	351
Impairment	(769)	(250)
Closing balance	356	1,125
Acquired patents, trademarks and licences		
Cost	748	560
Accumulated amortisation and impairment charges	(327)	(262)
Net book value	421	298
Opening balance	298	289
Additions	188	10
Impairment	(53)	-
Amortisation	(12)	(1)
Closing balance	421	298
Intellectual property		
Cost *	3,696	3,484
Accumulated amortisation and impairment charges	(232)	(222)
Net book value	3,464	3,262
Opening balance	3,262	3,235
Additions	282	54
Disposals	(70)	(6)
Amortisation	(10)	(21)
Closing balance	3,464	3,262
Total intangible assets	4,241	4,685

*\$3,591,000 relates to the S-Clave project (2017: \$3,130,000)

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

	30 June 2018 \$000	30 June 2017 \$000
Haden & Custance	356	351
Titan Slicer	-	774
Total	356	1,125

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

On an annual basis, the recoverable amount of the goodwill is determined based on value in use calculations for the cash generating unit or group of cash generating units that the intangible relates to. These calculations use cash flow projections based on management budgets approved by the directors. The goodwill allocated to Titan Slicer relates to the acquisition and subsequent integration of Titan Slicer Limited in July 2012. The goodwill allocated to Haden & Custance relates to the acquisition in December 2016.

Goodwill has been tested for impairment as at 30 June 2018. Each cash generating unit or group of cash generating units which carries goodwill has prepared a discounted cash flow on a value-in-use basis using past experience of sales, growth, operating costs and margin, and external sources of information where appropriate to determine their expectations of the future. Cash flows beyond five years have been extrapolated using estimated terminal growth rates which do not exceed the long term growth rate for the industries in which the business units operate. Titan Slicer goodwill has been impaired by a further \$769,000 in the current year bringing the balance of Titan goodwill to \$Nil. The average growth rate used for Haden & Custance is 19.3%. The terminal growth rate was 2% and the cash flows were discounted at a discount rate of 13%. The forecasted future cash flows have been determined to support the carrying value of this cash generating unit, including the allocated goodwill. Movement in the above three inputs respectively of 1% with all the remaining variables held constant sufficient head room is still achieved.

S-Clave, which represents \$3,591,000 of intellectual property, was not yet available for use as at 30 June 2018 and has therefore been tested for impairment. There has been increased confidence in the ability to commercialise S-Clave. However, this depends on final testing and trialling. A five year cash flow forecast has been used to estimate the asset's value in use, discounted at a rate of 18%. On this basis the carrying value of the asset has been deemed to be unimpaired. S-Clave is anticipated to begin commercialisation in the 2019 financial year. Movement in the above discount rate by 5% and if estimated cashflows were to reduce by 15% there would be no impairment

17. Deferred tax asset

	Buildings \$000	Other Temporary Differences \$000	Tax Losses \$000	Total \$000
Balance at 1 July 2016	(289)	745	4,298	4,754
Amounts (charged) credited to profit and loss	24	(214)	(2,118)	(2,308)
Balance at 30 June 2017	(265)	531	2,180	2,446
Balance at 1 July 2017	(265)	531	2,180	2,446
Amounts (charged) credited to profit and loss	-	-	(1,901)	(1,901)
Balance at 30 June 2018	(265)	531	279	545

Other Temporary Differences arise from provisions for working capital and plant and equipment.

As at 30 June 2018 the Group derecognised \$1,901,000 of tax assets. While the directors remain confident of generating taxable profits in the future for the reasons outlined in note 3, it has been deemed appropriate to take the benefits of the tax losses as profits are generated. As at 30 June 2018 there were \$5,434,000 of unrecognised New Zealand tax benefit, which is available for future offset of taxable profit when generated.

The capitalised balance of deferred tax remaining was recognised on the basis that shareholder continuity has been maintained for losses generated from 2011 onwards. The board adopted the budget and cash flow forecast for the year to 30 June 2019. The budget indicates that there will be sufficient future taxable profits available for the Group to utilise the tax assets recognised.

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

18. Investment in subsidiaries and associates

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

Subsidiaries	Activities	Location	2018 % ownership	2017 % ownership
Mercer Stainless Limited.	Stainless steel fabricator and equipment manufacture	New Zealand	100%	100%
Haden and Custance 2016 Limited	Designs and manufactures automated handling systems	New Zealand	100%	100%
Mercer Technologies Limited	Holds Intellectual Property	New Zealand	100%	100%
Titan Slicer Limited	Specialised food cutting equipment sales and service	New Zealand	100%	100%
Mercer Products Pty Limited	Non-trading subsidiary, formerly a distributor of kitchen products	Australia	100%	100%
Mercer Technologies Pty Limited	Non-trading subsidiary, formerly a supplier of stainless steel products	Australia	100%	100%
Mercer Stainless Pty Limited	Non-trading subsidiary, formerly a stainless steel fabricator and equipment manufacturer	Australia	100%	100%
Mercer North America Limited	Non-trading stainless steel equipment sales and service	United States	100%	100%
Associate				
Stainless Alliance Group Ltd	Funds a Trade NZ person for sourcing leads in Australia	New Zealand	25%	25%
Titan Design Limited	Intellectual Property company	New Zealand	25%	25%

Investment in associate

Titan Design Limited was established on 3 July 2012. The Group has a 25% investment in Titan Design Limited and has been accounted for as an Associate. The share of profits from the associate was \$Nil (2017: \$Nil) recognised in the Group Statement of Comprehensive Income.

19. Trade and other payables

	30 June 2018 \$000	30 June 2017 \$000
Trade creditors	3,823	4,442
Sundry creditors and accruals	1,112	153
Total creditors and accruals	4,935	4,595

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

Notes to the Group Financial Statements cont.

For the year ended 30 June 2018

20. Borrowings

	30 June 2018 \$000	30 June 2017 \$000
Bank loans	6,286	6,629
Gresham Finance loan balance	-	306
Gresham Finance payable for deferred consideration	-	398
Other Loans	-	349
Total borrowings	6,286	7,682
Contractual maturity		
Within one year	370	1,309
Later than one year	5,916	6,373
	6,286	7,682

The outstanding payable financial arrangement with Gresham Finance for \$398,000 at an interest rate of 12%, which relates to the deferred consideration from the sale of interiors business was discharged in full during the year.

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

The Group has secured banking facilities with BNZ comprised of the following:

- A committed cash advance facility of \$5,000,000, maturing 30 September 2019; and
- A loan facility of \$1,316,480 with regular repayments of \$30,580 per month falling due from June 2018, maturing 30 September 2019; and
- An overdraft facility of \$1,000,000 repayable on demand; and
- A temporary overdraft facility of \$250,000 repayable on demand. This facility limit expires 4 September 2018.

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

21. Share Capital

Group	Shares		30 June 2018 \$000	30 June 2017 \$000
	30 June 2018 # of shares	30 June 2017 # of shares		
Issued and fully paid up capital	64,520,706	57,595,206	44,366	41,522
Balance at beginning of the year	57,595,206	311,970,446	41,522	33,475
Shares issued during the year	6,925,500	839,933,504	2,964	8,399
Capital raising costs	-	-	(120)	(352)
Share consolidation 20:1	-	(1,094,308,744)	-	-
Balance at the end of the year	64,520,706	57,595,206	44,366	41,522

Shares issued during the year were paid for in cash. Part of the proceeds were used to repay bank debt and the Gresham Finance loan.

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

22. Retained earnings and other reserves

	30 June 2018 \$000	30 June 2017 \$000
Foreign currency translation reserve		
Balance at beginning of the year	(13)	-
Net exchange difference on translation of overseas subsidiaries	(69)	(13)
Balance at the end of the year	(82)	(13)
Share based payment reserves		
Balance at beginning of year	211	110
Value of employee services	-	101
Balance at the end of the year	211	211
Asset revaluation reserve		
Balance at beginning of the year	2,871	2,871
Balance at the end of the year	2,871	2,871
Total other reserves	3,000	3,069
Retained earnings		
Balance at beginning of the year	(35,081)	(28,119)
Prior year adjustment	-	-
Deficit for the year	(7,841)	(6,962)
Balance at end of the year	(42,922)	(35,081)

There are no restrictions on distribution of reserves. The foreign currency translation reserve is used to record foreign exchange differences arising on the translation of overseas subsidiaries. The asset revaluation reserve records revaluation movements on land and buildings. The share based payments reserve is used to record the value of employee services payable through equity and the resulting transfer to equity on issue of the shares.

23. Dividends

No dividend was paid or declared (2017: Nil).

Notes to the Group Financial Statements cont

For the year ended 30 June 2018

24. Earnings per share

Basic and diluted

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

Diluted earnings per share are calculated by dividing the profit/(loss) attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during the year adjusted to assume conversion of the dilutive potential of ordinary shares as a result of warrants on issue, and the exercise of share options where the weighted average market price of ordinary shares during the period exceeds the exercise price of the option/warrant.

	30 June 2018 # of shares	30 June 2017 # of shares
Weighted average number of ordinary shares in issue:		
Basic	62,257,810	40,282,847
Warrants	-	-
Options	-	755,401
Equity based remuneration	-	-
Total	62,257,810	41,038,248
Deficit attributable to the shareholders of the Company (\$000)	(7,841)	(6,962)
Basic earnings per share	(12.60) cents	(16.96) cents
Diluted earnings per share	(12.60) cents	(16.96) cents

Given the deficit in 2017 and 2018 the instruments above are anti-dilutive. Accordingly the number of shares used in the diluted earnings per share calculation reflects both the basic and diluted number of ordinary shares. On 9 January 2017 the company completed a share consolidation, for every 20 ordinary shares held by shareholders these were consolidated into 1 ordinary share. As a result the number of ordinary shares outstanding have been adjusted proportionately as if the share consolidation took place at the start of 2016.

25. Change in working capital

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

	30 June 2018 \$000	30 June 2017 \$000
Trade creditors and employee entitlements	235	(185)
Trade debtors and prepayments	995	(1,775)
Inventories	2,859	755
Total	4,089	(1,205)
Less : Purchase of Haden & Custance negative working capital	-	(27)
Add: deferred consideration for sale of business assets	-	370
Less: Inventory provision	(1,441)	(983)
Less : Debtors provision	467	-
Plus (Less): restructure provision released (provided)	-	618
Net movement in Statement of Cashflows	3,115	(1,227)



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

26. Contingent liabilities

	30 June 2018 \$000	30 June 2017 \$000
Guarantee to bankers for credit card facilities up to a limit of	149	99
Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise	3,755	4,970
	3,904	5,069

27. Commitments

	30 June 2018 \$000	30 June 2017 \$000
Non-cancellable sublease receivables		
Non-cancellable		
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows		
Within one year	170	193
Later than one year but not later than five years	-	170
	170	363

Operating lease commitments

Non-cancellable		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows		
Within one year	436	495
Later than one year but not later than five years	954	1,133
Later than five years	-	220
	1,390	1,848

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

Notes to the Group Financial Statements cont

For the year ended 30 June 2017

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: J F Dennehy, R Rookes and P Smart.

(b) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2018 and the year ended 30 June 2017 is set out below. The key management personnel are all the directors of the company and the executives with the greatest authority for the strategic direction and management of the company.

	30 June 2018 \$000	30 June 2017 \$000
Short term benefits	1,029	800
Long term benefits	48	15
Share based payments	-	101
Directors' fees	154	104
Total	1,231	1,020

(c) Equity instruments

(i) Share options

These options have replaced previous options mentioned in June 2017 Annual Financial Statements. In November 2017, Mr J Dennehy, Director and Board Chair, was issued options as follows:

a) to subscribe for 625,000 ordinary shares in the capital of the Company at an exercise price of \$0.40 per share exercisable in August 2018.

These options have replaced previous options mentioned in June 2017 Annual Financial Statements. In November 2017, Mr R Rookes, CEO, was issued options as follows:

a) to subscribe for 833,333 ordinary shares in the capital of the Company exercisable at \$0.30 per share exercisable in August 2018; and

b) to subscribe for 777,777 ordinary shares in the capital of the Company at an exercise price of \$0.45 per share exercisable in August 2019.

In November 2017, Mr I McGregor, CFO, was issued options as follows:

a) to subscribe for 166,667 ordinary shares in the capital of the Company exercisable at \$0.30 per share exercisable in August 2018; and

b) to subscribe for 111,111 ordinary shares in the capital of the Company at an exercise price of \$0.45 per share exercisable in August 2019.

(ii) Other shares

The weighted average fair value of shares and options was determined based on an equity valuation of the business at the date these arrangements were entered into. The significant inputs into the model at the date of the share based arrangements were an assumed share price of 35c per share and risk free interest rate of 2.50%. For the share options volatility, was determined based on industry norms, of 36%.

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



Notes to the Group Financial Statements cont

For the year ended 30 June 2018

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

	30 June 2018		30 June 2017	
	Average		Average	
	exercise		exercise price	
	price in cents		in cents per	
	per share	Options ('000)	share option	Options ('000)
At 1 July 2017	10.36	14,429	5.97	18,429
Issued	38.00	2,514	5.00	-
Expired	10.36	(14,429)	14.00	(4,000)
At 30 June 2018	38.00	2,514	10.36	14,429

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

Grant-date	Vesting expiry date	price in cents	Shares ('000)	Shares ('000)
		per share	2018	2017
		option		
November 2015	August 2017	7.00	-	3,572
November 2015	August 2017	5.00	-	5,500
November 2015	August 2018	7.00	-	5,357
November 2017	August 2018	40.00	625	-
November 2017	August 2018	30.00	1,000	-
November 2017	August 2019	45.00	889	-
			2,514	14,429

In November 2017 shareholders approved to issue share options to substitute and replace previously issued share options. These substitute share options are detailed above and have a Grant-date of November 2017.

(d) Balances owed (to) from associates and related parties

	30 June 2018	30 June 2017
	\$'000	\$'000
Advances owed from associates	-	641
Gresham Finance payable for deferred consideration	-	(398)
Gresham Finance loan balance	-	(306)

(e) Terms and conditions of related party transactions

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

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

During the year the \$398,000 balance of the deferred consideration for the sale of Interiors was settled and discharged in full.

As at 30 June 2018 Mercer Group had repaid in full a \$306,000 loan to Gresham Finance Limited.

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

28. Subsequent events

There were no subsequent events.

Independent Auditor’s Report

To the Shareholders of Mercer Group Limited

Opinion

We have audited the consolidated financial statements of Mercer Group Limited (‘the Company’) and its subsidiaries (the ‘Group’), which comprise the group statement of financial position as at 30 June 2018, and the group statement of comprehensive income, group statement of movements in equity and group statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 4 to 38, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (‘NZ IFRS’) and International Financial Reporting Standards (‘IFRS’).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (‘ISAs’) and International Standards on Auditing (New Zealand) (‘ISAs (NZ)’). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor and the provision of advisory services, we have no relationship with or interests in the Company or any of its subsidiaries. These services have not impaired our independence as auditor of the Company and Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the ‘quantitative’ materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the ‘qualitative’ materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be \$420,000.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Cashflow forecasts and capital adequacy considerations (Note 3) The Group has reported losses and net cash outflows from operating activities over recent years. For the year ended 30 June 2018, the Group incurred a deficit from operations after finance costs and taxation of \$7,841,000 (2017:\$6,962,000) and net cash outflows from operating activities was \$592,000 (2017: \$4,706,000). The Group has prepared a cash flow forecast that supports its conclusion on the future viability of the Group’s business operations as a going concern. The forecast includes key assumptions as to revenue growth; available debt facilities; operating expenditure	<p>We assessed the current funding arrangements in place for the Group by:</p> <ul style="list-style-type: none">obtaining relevant loan documentation and confirming the outstanding loan balances;assessing whether there were any applicable covenant requirements; andidentifying any scheduled repayments or maturity of borrowings impacting the Group’s cash outlays. <p>We evaluated the appropriateness of the going concern assessment prepared by the Group by:</p> <ul style="list-style-type: none">challenging the reasonableness of the underlying assumptions used by the Group in preparing its cash flow forecast;

requirements; capital expenditure requirements and expected funding arrangements. Note 3 to the consolidated financial statements discloses the key assumptions relating to the Group's going concern assessment.

The going concern assessment involves significant management judgement and achievement of these assumptions is critical to the ongoing business viability. For these reasons, we have included this as a Key Audit Matter.

- performing sensitivity analysis to determine the robustness of the cash flow forecasts and the impact of changing key assumptions;
- evaluating the support for the Group's forecast sales and ability to fulfil customer orders; and
- determining whether the forecasted cash flow and profitability was sufficient to meet the requirements of the funding arrangements.

We also assessed the adequacy of the disclosures made by the Group in the financial statements.

Capitalisation of unutilised tax losses - (policy (f) & Notes 3, 10 & 17)

At 30 June 2018, the Group recognised deferred tax assets of \$545,000 (2017: \$2,446,000) mainly relating to accumulated tax losses, and derecognised \$1,901,000 of tax losses (2017: \$2,118,000) during the year. As of year-end, unrecognised accumulated tax losses amounted to \$9,059,000 (2017: \$6,499,000).

The recognition of deferred tax assets is subject to certain criteria, which includes:

- the Group generating future taxable profits to utilise the said tax losses; and
- shareholder continuity rules under New Zealand tax legislation.

We have included this as a Key Audit Matter in our report as:

- the unrecognised tax losses are quantitatively material to the financial statements at 30 June 2017;
- the Group issued rights and shares during the year;
- the Group did not generate taxable profits in recent years; and
- the significant level of judgement exercised by management in evaluating the above criteria.

We performed procedures to evaluate the Group's assessment for recognition of unutilised tax losses as deferred tax assets by:

- challenging the reasonableness of the underlying assumptions used by the Group in preparing forecasts by considering historic profitability, accuracy of budgetary controls and expected future operating activities to generate future taxable profits;
- performing sensitivity analysis to determine the robustness of the forecasts and the impact of changing key assumptions;
- reviewing the Group's assessment of shareholder continuity and tax losses carried forward; and
- utilising our internal tax specialists to assess the Group's position relating to the shareholder continuity rules.

We also assessed the adequacy of the disclosures made by the Group in the financial statements.

Impairment assessment of goodwill and intellectual property - (policy (i) & (q) and Notes 3 & 16)

At 30 June 2018, the Group has goodwill of \$356,000 (2017: \$1,125,000) and intellectual property of \$3,464,000 (2017: \$3,262,000) relating to its Haden & Custance and Mercer Technologies businesses. The Group is required to assess, at least annually, whether these intangible assets are impaired. During the year, the Group has recognised a further impairment of \$769,000 (2017: \$250,000) on goodwill relating to Titan Slicer (Note 16).

The recoverable amounts of these intangible assets are highly dependent on the expected future cash flows generated by the underlying businesses, and in the case of intellectual property, its viability for commercialisation. Should these expected future cash flows not eventuate, these intangible assets would be impaired.

We have included impairment assessments of goodwill and intellectual property as a Key Audit Matter due to the significance of these assets to the financial statements, history of the Group's recent operating losses and the level of management estimates involved in determining the recoverable amounts.

We performed procedures to evaluate the Group's impairment assessment of goodwill and intellectual property by:

- challenging the reasonableness of the underlying assumptions used by the Group in preparing the valuation models that supports the recoverability of the recognised intangible assets. Specifically we challenged the Group's discount rates, long-term growth rates and expected future cash flows used in the models;
- performing sensitivity analysis to determine the robustness of the valuation models and the impact of changing key assumptions; and
- utilising our internal valuation specialists to assess the Group's estimates used in the valuation models.

We also assessed the audit evidence for the technical and commercial feasibility of the Group's intellectual property assets which are not yet ready for use as at year-end.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the

consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and consider further appropriate actions.

**Directors' responsibilities
for the consolidated
financial statements**

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities
for the audit of the
consolidated financial
statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>

This description forms part of our auditor's report.

Restriction on use

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

Deloitte Limited

**Paul Bryden, Partner
for Deloitte Limited**
Christchurch, New Zealand
29 August 2018