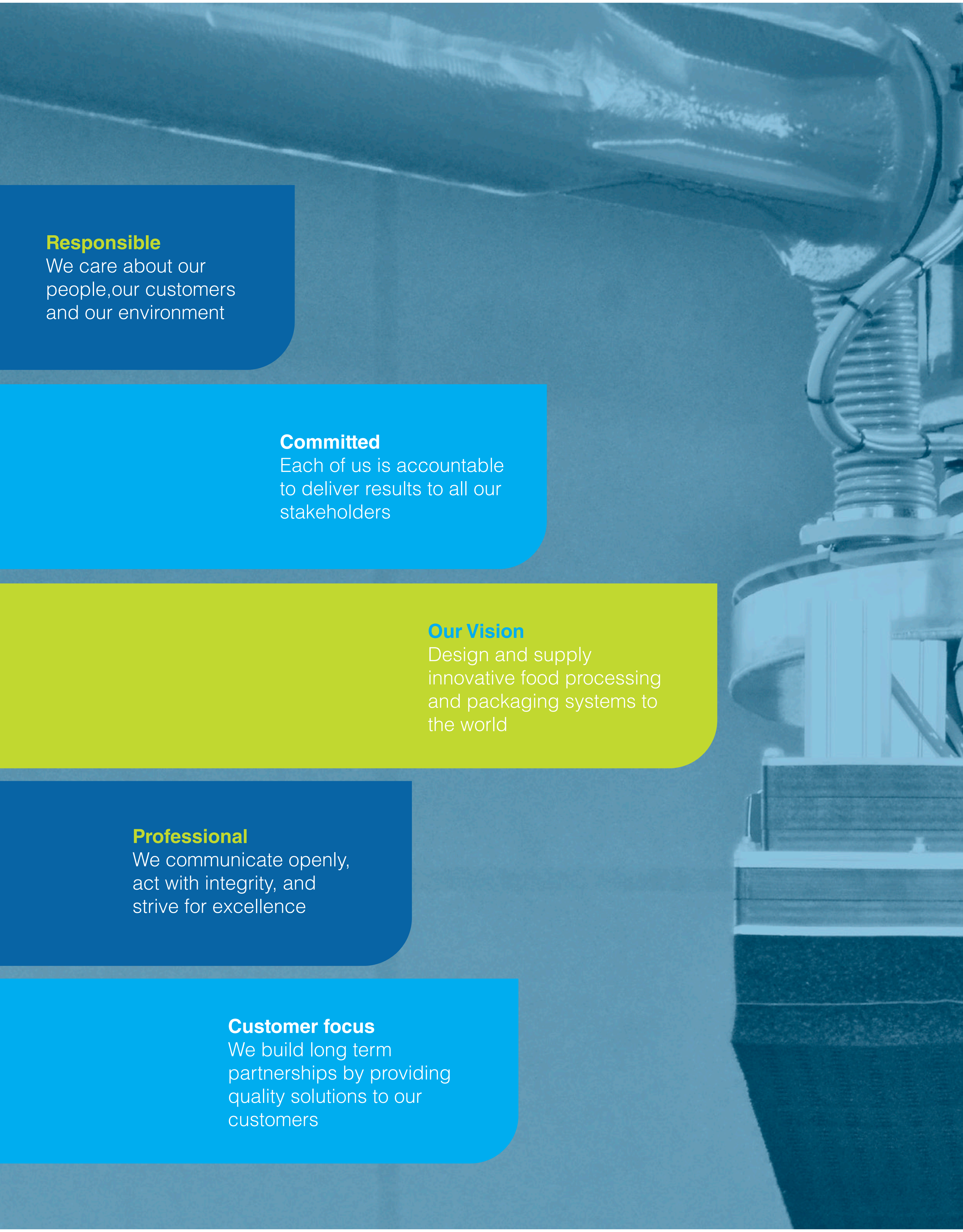
ANNUAL REPORT

2019



Responsible
We care about our people,our customers and our environment

Committed
Each of us is accountable to deliver results to all our stakeholders

Our Vision
Design and supply innovative food processing and packaging systems to the world

Professional
We communicate openly, act with integrity, and strive for excellence

Customer focus
We build long term partnerships by providing quality solutions to our customers

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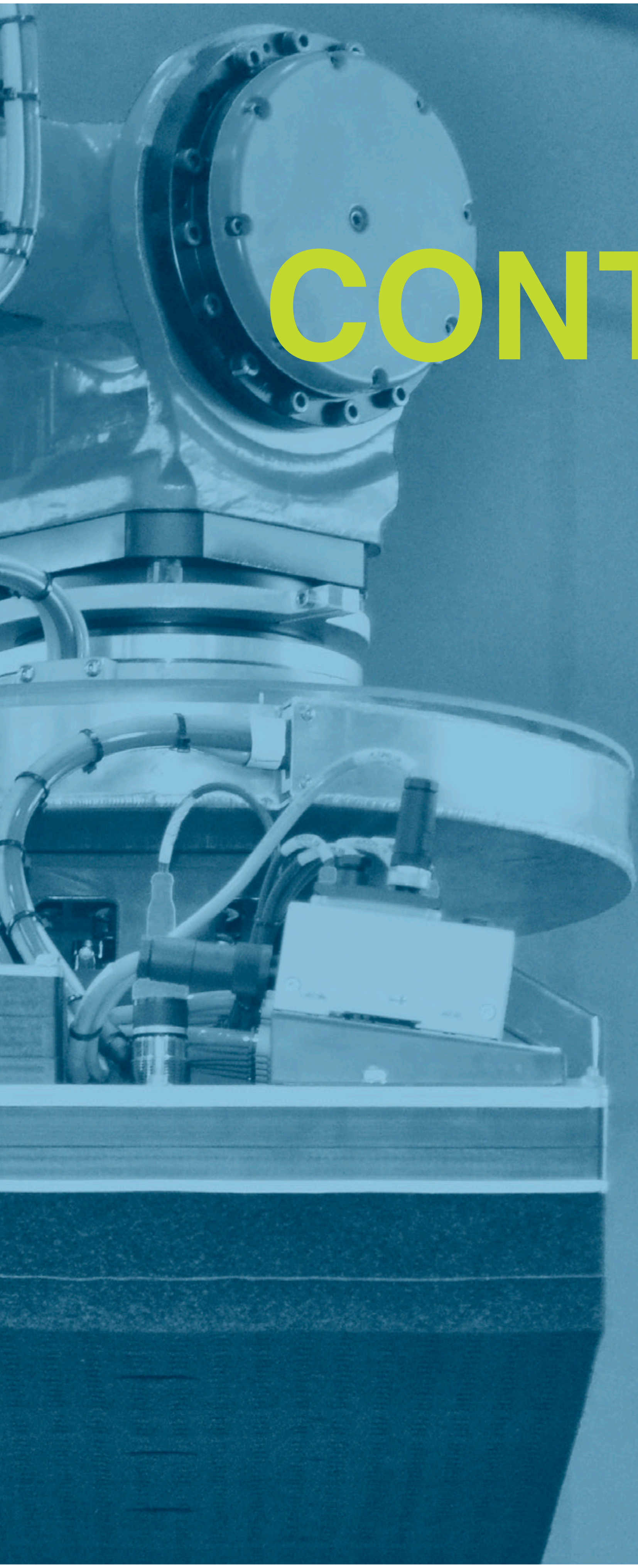

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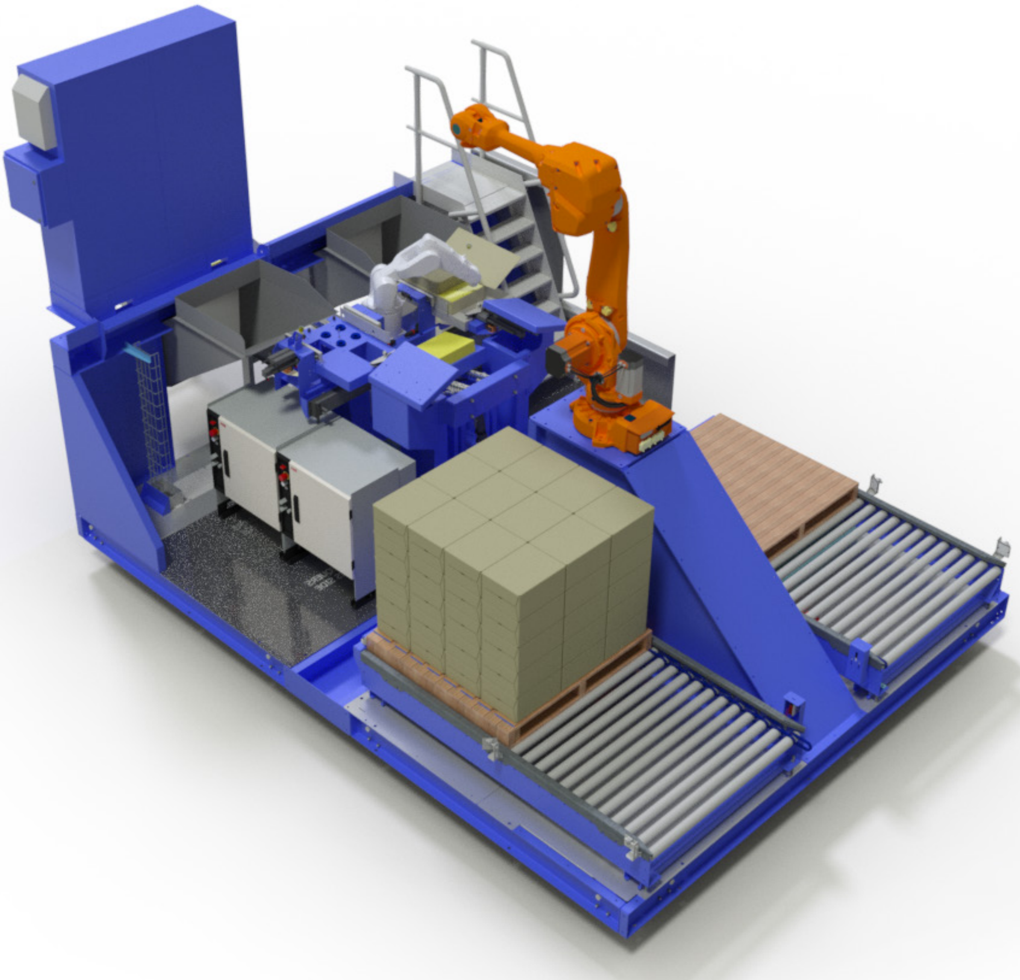


FROM THE CHAIRMAN

Last year I commented that with the further focus on and development of our H&C business, that your company was on track to become a technology focused organisation. Together with further tangible progress with the S-Clave medical technology, the opportunities and outcomes in all areas are tangible and reported on in detail here by our Chief Executive, Richard Rookes.

We also reported that we would review our online presence and branding. This has been completed for H&C and we will expect to announce further details on the group branding in due course.

Since early 2015, your company has undergone a significant transformation and met with a number of challenges.. During the reporting year, we made the last reparation payments on an outstanding Titan contract and were also pleased to have settled the Edendale silo collapse process, which importantly, has not affected the good standing and reputation of our well regarded Stainless fabrication business.

I also have to mention the exceptional health and safety record across our businesses. While that is commendable, we are not complacent and your board and executive team recognise the efforts made by all our employees to pay more than lip service to their own safety, and that of their colleagues. Manuals and processes are important, but a collegial culture of health, safety and mutual respect, starts and finishes on the workshop floor. My thanks to all our staff.

There were two other stated objectives outlined at our last General Meeting; commercialising S-Clave and adding to our board to deliver both diversity and additional skills. In regard to S-Clave, while we share an understandable degree of frustration with shareholders at progress, I would draw your attention to the timeline of the last year set out in the CE report below which speaks for itself. We hope to be reporting further in due course.

As for adding to our board strength, it will be understood that to successfully do so, we need to be able to attract the right people – that in itself requires being able to demonstrate stability, resilience and a positive future. In my view, we are now in that position, supported in no small part by a robust order book for the coming financial year and our focus on the markets in which we are committed. To that end, we will be commencing a search process to add to your board.

We thank all our stakeholders for their support and commitment to our company, and we are looking forward to further progress with considerable optimism.

John Dennehy
Board Chair

HIGHLIGHTS

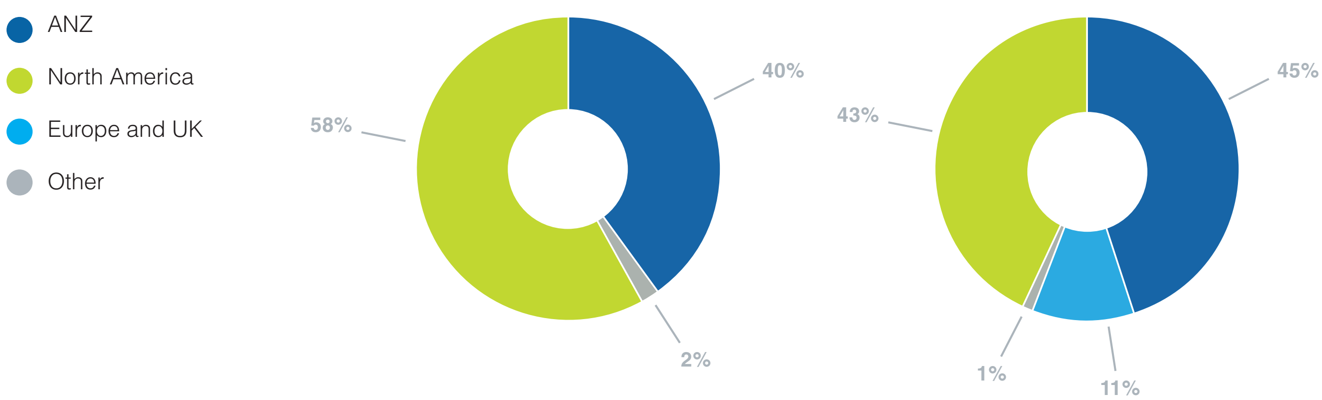
1. Revenue increased by 32% to $38m
2. EBITDA of $0.81m, up from an EBITDA loss of $1.4m in the prior year
3. Acquisition of Milmeq's Chilling and Freezing business in February 2019
4. Settlement of the Edendale silo process
5. Continual improvement in health and safety
6. Robust 2020 order book

OVERVIEW

Mercer is continuing on its stated strategy of transitioning to a technology and automation led business. In that regard, the 2019 financial year was pleasing on a number of fronts – our H&C Automated Solutions (H&C) business grew by 95% on a like for like basis and returned to profitability, and we acquired the Chilling and Freezing business of Milmeq. This now gives us a platform of established brands and products and an installed base from which to grow our automation business globally.

We are focused on diversification across the products that we design and sell, the sectors that we sell to, and the geographies that we sell to, all necessary components for driving resilience through the various business cycles.

During the year we were pleased to put the Edendale silo collapse process behind us. As reported, we reached a full and final settlement with Fonterra that resulted in us agreeing to undertake $3m of discounted work over a three year period, and to pay $1m to Fonterra over a two year period. This outcome allowed us to move the business forward in a positive fashion while retaining a strong working relationship with Fonterra.



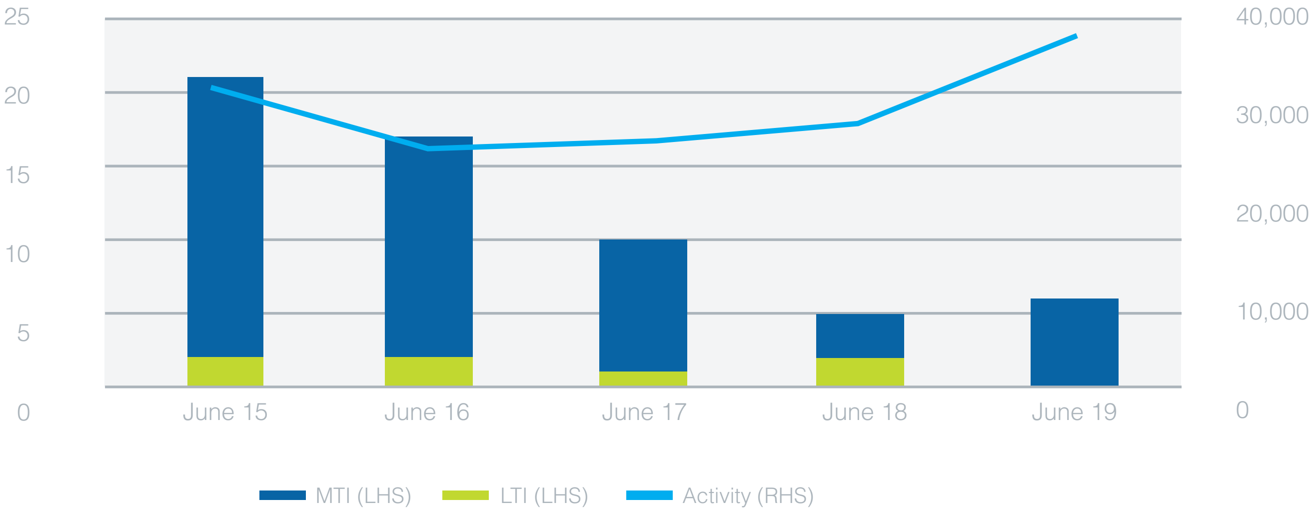
CAPITAL SALES BY REGION FY18

CAPITAL SALES BY REGION FY19

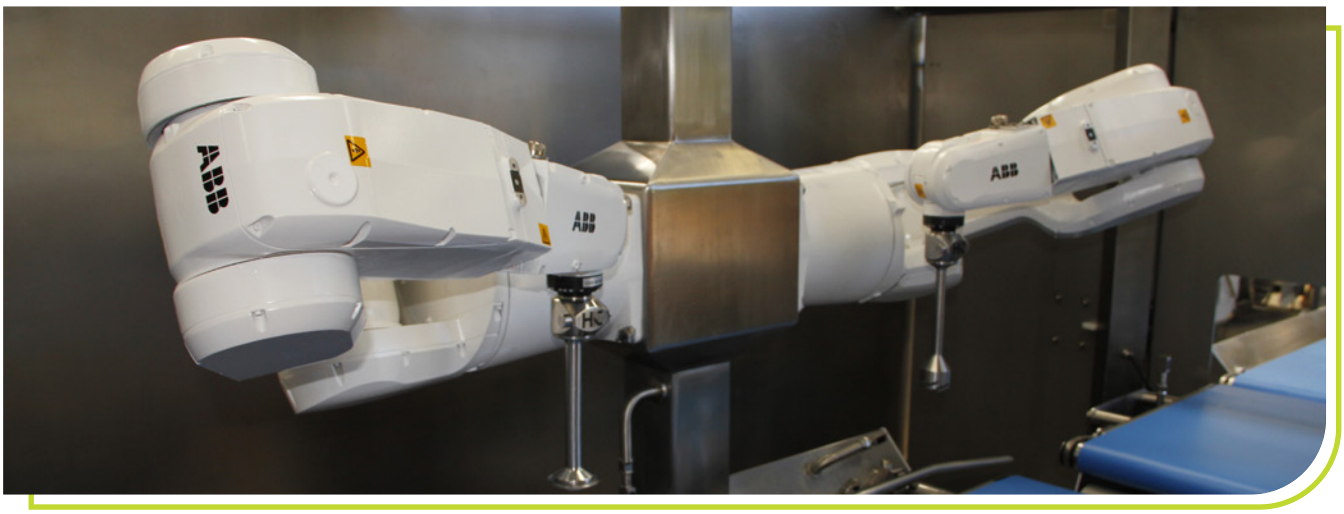
HEALTH AND SAFETY

We continue to focus on improvements in health and safety across the businesses, noting that our record to date is commendable. The key focus is on prevention and culture – ensuring that our teams have health and safety in front of mind at all times. In addition, this year we increased our focus on mental health and wellbeing, ensuring that we take a holistic approach to the wellbeing of our people in the workplace, whether domestically or when overseas.

GROUP INJURIES VS ACTIVITY



LTI and MTI are lagging measures the Group uses to record the severity of injury's, among other measures. LTI is the most severe injury and would see an employee away from work until fully recovered. MTI are less severe. Activity is simply sales revenue which directly correlates with manufacturing activity.



FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019, MERCER GROUP INCREASED ITS REVENUE BY 32% TO $38M.

The revenue growth was driven by a 95% increase at H&C and a $3.2m contribution from the Milmeq acquisition. EBITDA was $810,000, a significant improvement on the $1.4m EBITDA loss from the year prior. This was again the result of improved operating performance at H&C and another steady performance from Mercer Stainless.

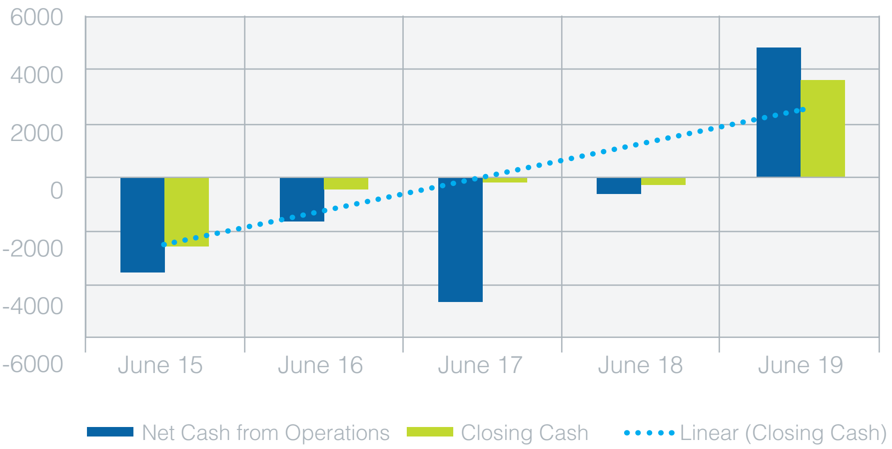
The Group recorded $1.1m of abnormal expenses, largely being the $1m Fonterra settlement (as noted, while it is fully expensed, we have two years to pay).

Finance expenses reduced from $490,000 in the prior year to $319,000 reflecting the reduced debt levels and increased cash in the business.

The net loss for the year of $1.0m was a material improvement on the $7.8m prior year loss. While it is disappointing to still record a loss, the abnormal expenses will not be repeated going forward and the trend towards continuing profitability is positive.

NET CASHFLOW FROM OPERATIONS VS CLOSING CASH

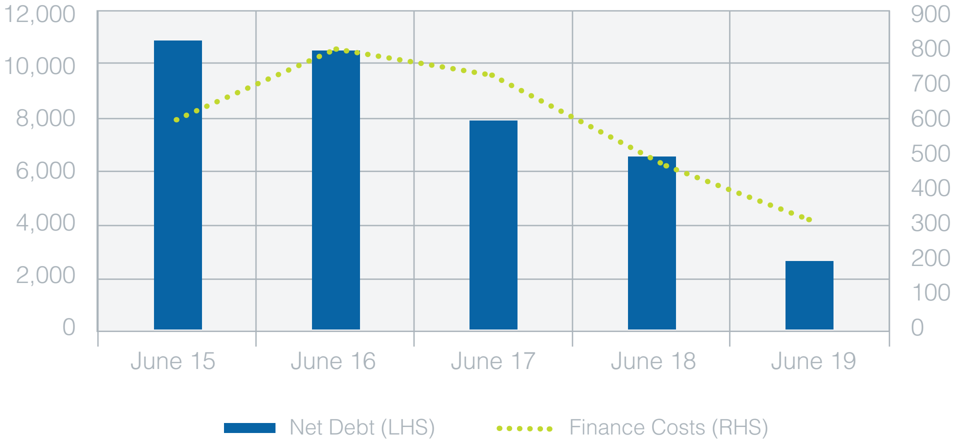
In Thousands of New Zealand Dollars



The cash flow within the business improved during the year – cash generated from operations was $4.9m versus a $592,000 outflow in the prior year. This is the continuation of a trend of improving cash flow, as seen in the graph.

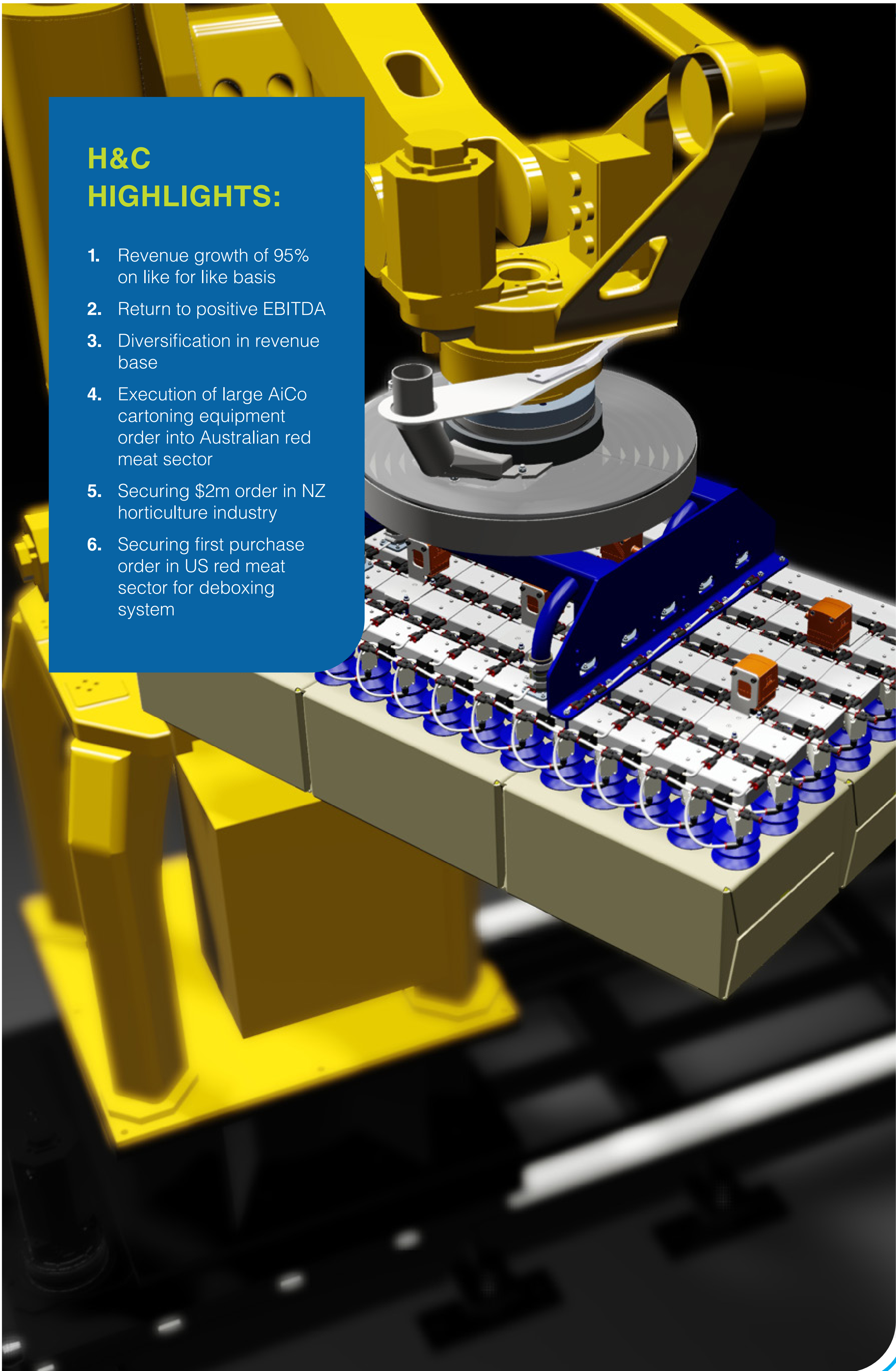
NET DEBT VS INTEREST EXPENSE

In Thousands of New Zealand Dollars



Net debt at year end was $2.7m (made up of $6.4m in debt and $3.7m cash on hand), which again is the continuation of a trend, noting that net debt was over $11m in 2015.

It should be noted that while balance sheet debt shows $6.4m as a current liability, these facilities were extended to 30 September 2020 post balance date. We note that the $2.7m net debt includes the $1m interest free working capital loan from the Milmeq shareholders that may be repayable on 31 December 2019. As outlined above, the debt reductions have also seen finance costs reducing in line with debt over a number of years.



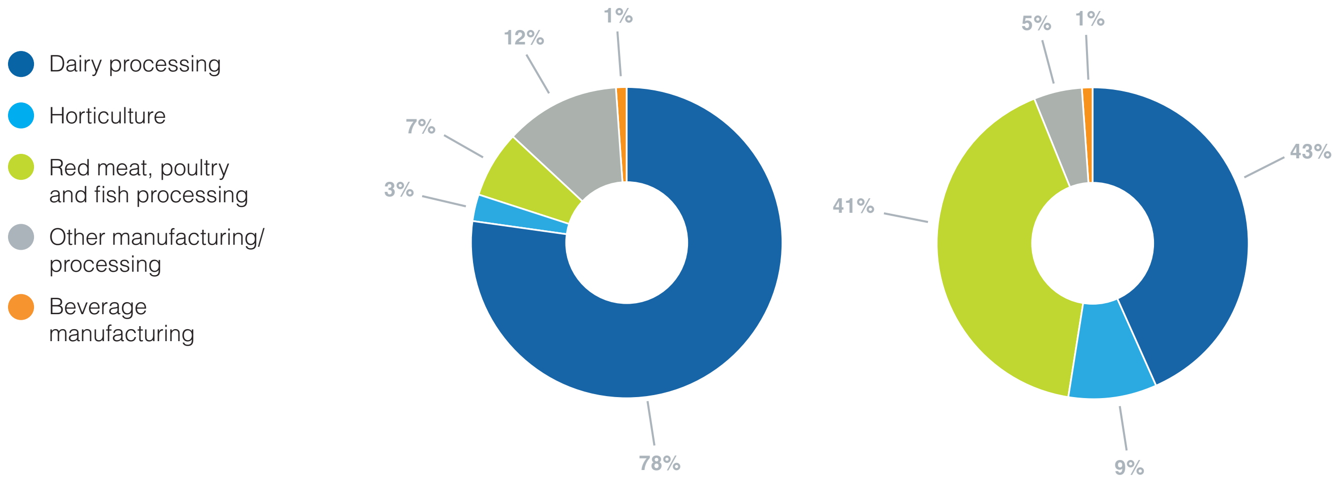
H&C HIGHLIGHTS:

1. Revenue growth of 95% on like for like basis
2. Return to positive EBITDA
3. Diversification in revenue base
4. Execution of large AiCo cartoning equipment order into Australian red meat sector
5. Securing $2m order in NZ horticulture industry
6. Securing first purchase order in US red meat sector for deboxing system

Automated Solutions

H&C design and supply automated handling systems that prepare bulk products for processing. It is based in Hastings, New Zealand and has an office in Green Bay, Wisconsin. We were pleased with the growth in the business during the year, which resulted in revenue increasing by 95% on a like for like basis. This was driven through a deliberate strategy to diversify the revenue streams and saw strong orders of the AiCo line of packaging equipment and a ‘re-entry’ into the New Zealand horticulture sector.

The growth did cause some issues for the business which ultimately saw margins impacted. While we were pleased with return to positive EBITDA of $471,000 (versus a loss of $1.6m for the prior year), the margins were below where they should have been. This was due to the new mix of work requiring increased engineering time, capacity constraints requiring the use of contract resource and some jobs in new sectors not be executed to budgeted margin. This was a growth issue and we are confident margins will improve going forward.



CAPITAL SALES WON BY SECTOR FY18

CAPITAL SALES WON BY SECTOR FY19

INCLUDES MILMEQ SALES

We were pleased to secure our first order of a de-boxing system into the red meat sector in the USA. While this is requiring an investment of around $250,000, it allows us to install, test and ultimately sell the system into one of the largest red meat companies in the USA. This represents an opportunity for us to take existing our technology into a new, large sector that is seeing increasing need for automation. This first system will be installed and tested in December 2019. This development process has further extended our vision technology systems, with the installed project being able to open boxes of variable size. This has considerably broader applications in other sectors such as e-commerce, which should provide further growth opportunities in the years ahead.

Milmeq

The Group acquired the Chilling and Freezing business of Milmeq in February 2019. Under the terms of the acquisition, the previous owners provided $1m of interest free working capital which is repayable on 31 December 2019.

The actual purchase price will be determined on 31 December 2019 as a function of the net tangible asset value (less deposit paid) of $242,000, with an adjustment for the over/under performance of the business versus an agreed budget.

The Milmeq Chilling and Freezing systems have strong market positions in the Australian red meat sector with plate freezers and the cheese industry with its chilling tunnels. The key driver for the systems is the requirement for automated chilling and freezing, coupled with increased food safety regulation products. The business will be merged into H&C over the next 12 months. There are real market and operational synergies to be gained over time, as Milmeq provides an installed base for which H&C's automation capability can sell more services, while H&C's customers provide an opportunity to sell Milmeq systems, particularly in the US.

We have retained the Milmeq offices in Auckland and Brisbane, which also provides us greater scope for increasing our automation, controls and design teams across the business.

The Milmeq business is reported as part of H&C, and contributed $3.2m of revenue in the four months of ownership and an EBITDA loss of $92,000. This was forecast at the time of acquisition and was the rationale for the working capital facility.

It should be noted that since acquiring this business, we have secured over $15m of projects, well ahead of what was budgeted.

The S-Clave project remains on track, despite progress being slower than we would like, largely attributable to having to rely on external contractors for necessary tooling.

The chronology opposite provides an overview of process we have been through and where the focus has been in the past year. We are now in a position where we have a product that is working. From here, final testing will be undertaken over the next few months, and any final issues identified and dealt with.

During these processes, both we and our partner Atherton's have remained confident that the S-Clave system should prove an alternative to current sterilisation processes. The testing required to bring such a product to market is extensive and should not be underestimated. However, we now believe that we should be in a position to run hospital trials in the next financial year and we have a major health provider waiting to assist in this regard. As previously stated, the primary revenue driver of S-Clave is the recurring revenue stream from consumables. We look to the year ahead as a key year in the development of the S-Clave product.

JULY 2018

Injection molding tooling completed.

Testing undertaken – all air removal and steam integration tests passed, but issue with sealing of snorkel.

AUGUST 2018

Snorkel self-latching modifications devised and undertaken, but ultimately a decision made that we could improve the system.

SEPTEMBER 2018

Snorkel design reverted to original design with latching mechanism added.

Successful testing of snorkel sealing.

Issues identified with reliable lid sealing.

OCTOBER 2018

Various adhesives tested for lid sealing with varying results.

NOVEMBER 2018

1,000 tub and lid sets manufactured for next set of trials.

Varying results for lid sealing at the trials.

3M engaged to provide peelable adhesive.

DECEMBER 2018/ JANUARY 2019

Various tests undertaken on 3M product.

FEBRUARY 2019

Decision to test plastic film rather than rigid lid to fast track commercial product. Discussions held with a number of film companies.

MARCH 2019

Testing of film undertaken with Rollex in Australia, who manufactured die plate for testing their recommended film product.

APRIL 2019

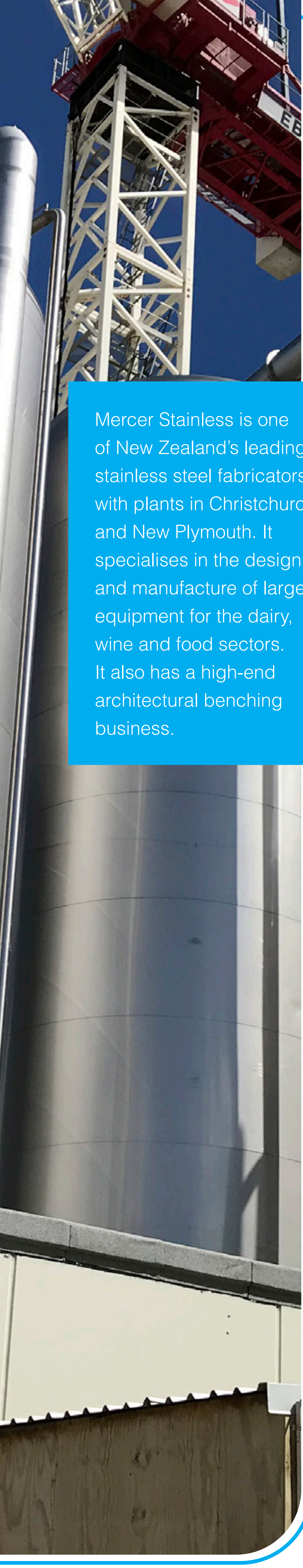
Initial film testing undertaken. Modifications required to the tub which were begun.

MAY 2019

Tooling for the tub completed.

JUNE/JULY 2019

Film testing undertaken, which has been successful with sealing.



Mercer Stainless is one of New Zealand's leading stainless steel fabricators, with plants in Christchurch and New Plymouth. It specialises in the design and manufacture of large equipment for the dairy, wine and food sectors. It also has a high-end architectural benching business.

Mercer Stainless Division

Mercer Stainless had a reasonable year in 2019, generating $16m of revenue and $780,000 EBITDA. The business continues to operate in a competitive environment, but has a strong market position in the dairy sector. The wine sector continues to provide some diversification to the business.

The business has navigated its way through the Fonterra Edendale process with a continuing strong relationship with Fonterra, and its reputation intact. We continue to undertake work for Fonterra, some of which will be discounted as mentioned, as part of our settlement.

The key for this business is workflow so we continue to drive hard to keep costs down while seeking alternative revenue streams outside of the dairy sector.

OUTLOOK

The fundamental global drivers for our automation and technology led businesses, H&C and Milmeq, remain strong – that is, the increasing cost of labour, an increased focus on health and safety, continued scarcity of labour for manual handling jobs and increased food safety requirements.

We have good workflows in both H&C and Milmeq through the first half of the new financial year, and good pipelines for further work. The focus is now on execution of that work at the right margin which means delivery on time and on budget. The management teams are focused on operational improvements. We are therefore confident that the financial performance of this side of the business will continue its positive momentum.

We now have a dedicated R&D/product development team at H&C which will mean a more structured approach to new product development. This is an exciting development as we look to build new markets to continue to diversify the revenue base of the business.

We will continue to review all businesses for their fit with our technology led future as regards capital allocation and the capital constraints that we continue to face. In that regard, over the next few months we are undertaking a strategic review of Mercer Stainless to assess its fit for the Group's technology and automation led future.

We would like to thank all staff for their ongoing commitment to the Group as we continue to evolve and change. In addition, we thank all of the shareholders and other stakeholders for their support of Mercer Group through what has been an interesting time.

Richard Rookes
CEO

BOARD OF DIRECTORS

John Dennehy
Chairman

John joined the Mercer Group board in February 2015. He has served on a number of boards in the UK and New Zealand, most recently at Simcro Ltd, a Hamilton based R&D export led agritech business. John is also a director of Kiwi Rail Holdings and a member of their Risk and Audit Committee. He holds an honours degree in Economics and Accounting.

George Rolleston
Director

George joined the board in February 2019. He is the founder and Managing Director of Asset Growth Fund based in Melbourne. He is also the director of a number of private New Zealand and Australian companies that span range of industries. He has a Masters of Applied Finance and a bachelor of Law degree. George represents the interests of the majority shareholder, Asset Management Limited.

Richard Rookes
CEO

Richard was appointed CEO in July 2015 having been on the board since 2011. Since being appointed as CEO, Richard has driven the strategic and operational change in the business. Prior to taking the executive role at Mercer Group, Richard was an investment banker in NZ and UK. Richard holds a BCom, Diploma for Graduates and a Post Graduate Diploma in Commerce, all from the University of Otago.

Paul Smart
Independent Director

Paul is a professional director and experienced finance professional. He is a Chartered Accountant and a long-standing member of the Institute of Directors and is currently a director of Intercity Group, Solarcity and a number of other private companies. Paul has had executive experience in start-ups, public companies, multi nationals and an SOE.

EXECUTIVE TEAM

Mike Lee
H&C General Manager

Mike is currently the general manager for the H&C automation solutions business that includes the Milmeq chilling and freezing products. Mike was previously leading Milmeq sales, business development and after sales teams. Mike has extensive experience growing internationally focussed businesses targeting the B2B food processing industry in over 50 countries. He has worked in a range of general management and senior management positions for the last 15 years. Mike has dairy experience working for 16 years with Fonterra and Synlait that included 10 years living and working in Australia, Asia and Europe. He also has worked for 7 years commercialising a portfolio of early stage start up and growth businesses. Mike has a degree in Food Technology and Diploma in Business Studies.

Ian McGregor
Mercer Group Limited CFO

Ian joined Mercer Group in April 2016 having previously been CFO at Fisher & Paykel Finance and Manager Group Treasury at Fonterra, amongst other key commercial roles. Ian brings commercial acumen to the finance team and is implementing financial and operational improvements across the business. Ian holds a Bachelor of Business Studies and is a CPA.

Ross Coppard
Stainless General Manager

Ross has been at Mercer since 1987 and is responsible for the safe and efficient operations of the workshops. Ross is also the key relationship manager for the fabrication business. Ross holds an NZ Certificate in Mechanical Engineering.

DIRECTORS' REPORT

In the opinion of the directors of Mercer Group Limited, the financial statements and the notes, on pages 17 to 61:

- Comply with New Zealand Equivalents to International Financial Reporting Standards and the International Reporting Standards fairly represents the financial position of the Group as at 30 June 2019 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 2019.

The Annual Financial Statements presented are signed for and of behalf of the board, and were authorised for issue on 29 August 2019.

John Dennehy, Board Chair

Paul Smart, Director

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

In Thousands of New Zealand Dollars	Notes	2019	2018
Revenue			
Sale of goods and contract revenue	6	38,090	28,819
Other income		37	15
Total Income		**38,127**	**28,834**
Expenses			
Changes in inventories of finished goods and work in progress		(23,311)	(18,587)
Salaries and wages	9	(9,712)	(9,602)
Rental and operating leases		(466)	(411)
Other expenses	8	(3,828)	(4,452)
Depreciation	15	(313)	(388)
Amortisation	16	(88)	(22)
Impairment of intangible assets	16	-	(822)
Fonterra settlement	5	(1,111)	-
Deficit from operations before finance costs and taxation		**(702)**	**(5,450)**
Finance costs		(319)	(490)
Deficit from operations after finance costs and before taxation		**(1,021)**	**(5,940)**
Income tax credit (expense)	10	(13)	(1,901)
Deficit from operations after finance costs and taxation		**(1,034)**	**(7,841)**
Other comprehensive (loss) income			
Items that may be subsequently charged or credited to profit and loss Currency translation differences on overseas subsidiaries	22	5	(69)
Other comprehensive income (loss) for the period, net of tax		**5**	**(69)**
Total comprehensive (loss) for the year		**(1,029)**	**(7,910)**
Attributable to:			
- Owners of the Parent		(1,029)	(7,910)
Total		**(1,029)**	**(7,910)**
Basic earnings per share:			
Deficit per share attributable to shareholders of the company (cents)	24	(1.60)	(12.60)
Fully diluted earnings per share:			
Deficit per share attributable to shareholders of the company (cents)	24	(1.60)	(12.60)

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


ABB
NO ADDED SUGAR
HIGH PROTEIN

GROUP STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

In Thousands of New Zealand Dollars	Notes	2019	2018
ASSETS			
Current assets			
Cash and bank balances	11	3,688	671
Accounts receivable	12	5,143	4,403
Other debtors and prepayments	12	703	397
Finance lease receivable	13	11	13
Inventories	14	2,490	2,412
Total current assets		**12,035**	**7,896**
Non current assets			
Property, plant and equipment	15	6,330	6,421
Intangible assets	16	4,922	4,241
Finance lease receivable	13	293	303
Deferred tax asset	17	545	545
Total non current assets		**12,090**	**11,510**
Total assets		**24,125**	**19,406**
LIABILITIES			
Current liabilities			
Bank overdraft	11	15	947
Net contract liabilities	14	5,325	1,781
Derivative financial instruments		8	27
Trade and other payables	19	7,758	4,935
Employee entitlements		1,249	986
Borrowings	20	6,355	370
Total current liabilities		**20,710**	**9,046**
Non current liabilities			
Borrowings	20	-	5,916
Total liabilities		**20,710**	**14,962**
Net assets		**3,415**	**4,444**
EQUITY			
Share capital	21	44,366	44,366
Other reserves	22	3,005	3,000
Retained earnings	22	(43,956)	(42,922)
Total equity		**3,415**	**4,444**

GROUP STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

Attributable to the owners of the Group

In Thousands of New Zealand Dollars	Notes	Share capital	Retained earnings	Share based payments reserve	Foreign currency translation reserve	Asset revaluation reserve	Total equity
Balance at 30 June 2017		**41,522**	**(35,081)**	**211**	**(13)**	**2,871**	**9,510**
Foreign currency translation reserve movement	22	-	-	-	(69)	-	(69)
Deficit for the year	22	-	(7,841)	-	-	-	(7,841)
Total comprehensive income for the year		-	(7,841)	-	(69)	-	(7,910)
Capital raising costs		(120)	-	-	-	-	(120)
Issue of new shares	22	2,964	-	-	-	-	2,964
Balance at 30 June 2018		**44,366**	**(42,922)**	**211**	**(82)**	**2,871**	**4,444**
Foreign currency translation reserve movement	22	-	-	-	5	-	5
Deficit for the year	22	-	(1,034)	-	-	-	(1,034)
Total comprehensive income for the year		-	(1,034)	-	5	-	(1,029)
Balance at 30 June 2019		**44,366**	**(43,956)**	**211**	**(77)**	**2,871**	**3,415**

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

GROUP STATEMENT OF CASH FLOW

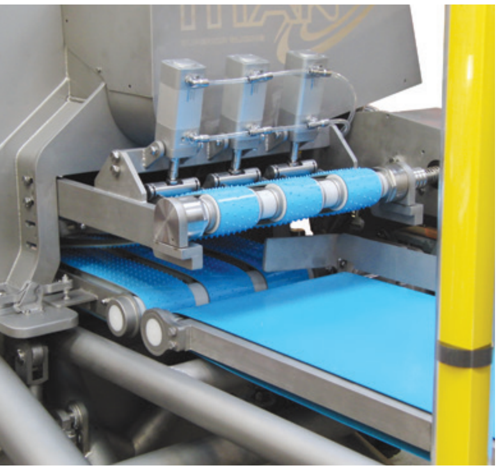
FOR THE YEAR ENDED 30 JUNE 2019

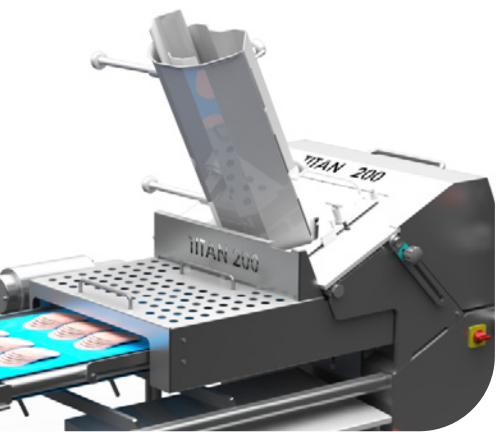
In Thousands of New Zealand Dollars	Notes	2019	2018
OPERATING ACTIVITIES			
Deficit after tax		(1,034)	(7,841)
Income tax recognised in Group Statement of Comprehensive Income		13	1,901
Tax paid		(13)	-
Finance costs		319	490
Depreciation and amortisation	15,16	401	410
Change in inventory provision		(344)	1,441
Change in expected credit low		(26)	(467)
Gain on sale of plant & equipment		2	-
Impairment of intangible assets	16	-	822
Derivative financial instruments		(19)	27
Changes in working capital	25	5,924	3,115
Net cash in (out) flow before finance costs		**5,223**	**(102)**
Interest paid		(319)	(490)
Net cash in (out) flow from operating activities		**4,904**	**(592)**
INVESTING ACTIVITIES			
Cash was provided (to) from:			
Purchase of property, plant and equipment	15	(281)	(138)
Purchase of patents and development activities (net)	16	(769)	(399)
Purchase of Milmeq	29	(50)	-
Finance lease	13	12	(316)
Interest received on finance lease		-	15
Proceeds from disposal of property, plant and equipment	15	59	12
Net cash from investing activities		**(1,029)**	**(826)**
FINANCING ACTIVITIES			
Cash was provided (to) from :			
Capital raising costs	21	-	(120)
Issue of new shares	21	-	2,964
Drawdown (repayment) of borrowings	20	69	(1,396)
Net cash inflow from financing activities		**69**	**1,448**
Net increase in cash held		**3,944**	**30**
Cash (overdraft) at beginning of the year		(276)	(237)
Effect of exchange rate changes		5	(69)
Cash/(overdraft) at the end of the year	**11**	**3,673**	**(276)**

The above Statement of Cash Flow should be read in conjunction with the accompanying notes. The Statement of Cash Flow is exclusive of GST.

NOTES TO THE GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019





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 Road, 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:

Haden & Custance (H&C) Automated Solutions: This division houses the Group's automation brands. It designs, manufactures, delivers and services automated solutions to a range of industries predominantly, in the food sectors. H&C markets and sells its core cheese systems, as well as the Group's other brands which include AiCo, Beta, Titan Slicer and most recently Milmeq product ranges.

During the year the Group acquired the assets of Milmeq chilling and freezing business. The Milmeq name is an established and respected brand in designing, manufacturing and installing chilling and freezing tunnels and plate freezing systems. Milmeq also has an asset management business that provides service, spare parts and support to its customers. This compliments H&C's already existing service and spares business. There is significant customer crossover between H&C and Milmeq. This should allow the combined business to provide further automated products and solutions to its customer base, leveraging the complimentary skills of the two businesses.

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.

Mercer Technologies: This division manages the Group's research and development that sits outside of the automation business. Currently the focus is on commercialising the S-Clave medical sterilisation technology in partnership with Atherton who are Australia's largest supplier of medical equipment.

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 2019.

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.

(B) NEW, AMENDED STANDARDS AND CHANGES IN ACCOUNTING POLICIES

A number of new standards become applicable for the current reporting period and the Group has changed its accounting policies as a result of adopting the following standards:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

This note explains the impact of the adoption of IFRS 15 and IFRS 9 on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

IFRS 15 Revenue from Contracts with Customers - Impact of Adoption

The Group adopted IFRS 15 Revenue from Contracts with Customers for the first time from 1 July 2018. The Group applied NZ IFRS 15 modified retrospective method with the cumulative effect of applying the standard for the first time recognised at the date of initial application (1 July 2018).

On adoption of NZ IFRS 15, the Group has revised its accounting policies for revenue recognition (where applicable) which are disclosed in Note 1(f). A number of additional disclosures required by NZ IFRS 15 are also included, refer to Note 6 and Note 7.

The Group reviewed the timing of revenue recognition as a result of the adoption of NZ IFRS 15 and accordingly determined there was no material adjustment against opening retained earnings at 1 July 2018 for the cumulative effect of revenue that would have been recognised in the prior period.

IFRS 9 Financial Instruments - impact of adoption

IFRS 9, as it relates to the Group, replaces the provisions of IAS 39 that related to the recognition, classification, measurement and impairment of financial assets and hedge accounting. The adoption of IFRS 9 from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in the sections below, along with the impact on the consolidated financial statements.

i. Classification and measurement of financial assets
Under NZ IFRS 9, all the financial assets are measured at amortised cost, fair value through profit or loss (FVTPL), or fair value through other comprehensive income (FVOCI) depending on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group's financial assets include cash and cash equivalents, trade and other receivables, lease receivables, contract asset under NZ IFRS 15 and other debtors. These financial assets continue to be measured at amortised cost as they meet the conditions under NZ IFRS 9.

ii. Impairment of financial assets
The Group has financial assets that are subject to IFRS 9's new expected credit loss model, that being trade receivables, lease receivables and contract assets.

The Group was required to revise its impairment methodology under IFRS 9 for trade receivables. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table below.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime credit losses to be recognised from initial recognition of the trade receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others: the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments.

To measure expected credit losses, trade receivables have been grouped and reviewed on the basis of the number of days past due. The expected credit loss allowance has been calculated by considering the impact of the following characteristics:

- The Baseline loss rate takes into account the write-off history of the Group over a four-year period as a predictor of future conditions and applies an increasing expected credit loss estimate by trade receivables aging profiles.

- The Market characteristic considers the relative risk related to any particular market segment and makes an assessment of the indirect exposure the Group has in respect to this market segment's conditions via our customer base. Of particular focus with respect to this characteristic in the current period is the vertical construction market segment.

The expected credit loss allowance as at 1 July 2018 was determined as follows for trade receivables:

The ageing profile of the gross carrying amount above does not necessarily reflect whether an amount is past due and impaired as customer credit terms vary and a significant amount of the aged receivable represents contractual retentions.

In Thousands of New Zealand Dollars	Current	30-59 days	60-89 days	90 days and later	TOTAL
Gross carrying amount					
Balance outstanding	3,192	369	840	71	4,472
Total expected credit loss rate	0.4%	2.3%	4.9%	8.2%	1.5%
Expected credit loss allowance	**12**	**8**	**41**	**6**	**67**

The expected credit loss allowance for trade receivables as at 30 June 2018, as reported in the Annual Report, reconciles to the opening loss allowance on 1 July 2018 as follows:

	In Thousands of New Zealand Dollars
At 30 June 2018 - calculated under IAS 39	69
Impact of first time adoption of IFRS 9	1
Opening loss allowance as at 1 July 2018 - calculated under IFRS 9	68

IFRS 16 Leases

IFRS 16 Leases were issued in January 2016. It will result in almost all leases being recognised in the Statement of Financial Position, as the distinction between operating leases and finance leases is removed. The standard is mandatory for reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its mandatory effective date and intends to implement the simplified transition approach as defined in the standard.

NZ IFRS 16 Leases replaces NZ IAS 17 and is effective for annual periods commencing on or after 1 January 2019. It requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-to-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets for lessees. It will also result in changes in the Statement of Comprehensive Income with an interest expense on the liability and depreciation of the asset replacing the rental expense.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable minimum operating lease commitments of $1,845,000 (refer note 27). On adoption, NZ IFRS 16 is expected to have a material impact on the Group's statement of financial position and statement of comprehensive income.

Management has developed a model to calculate the full quantitative effect of their current operating leases under IFRS 16 as at 1 July 2019, being the date of adoption. The model requires management to make some key judgements including:

- The incremental borrowing rate used to discount lease assets and liabilities; and
- The lease term including potential rights of renewals.

As a result of the calculations and the application of judgement within the model, management is able to quantify the potential impact of IFRS 16 based on the current lease arrangements across the Group. Management expect an approximate material impact across the following line items in the statement of financial position:

	In Thousands of New Zealand Dollars
Recognition of a right-of-use asset	1,585
Recognition of a lease liability	(1,661)
Recognition of a deferred taxation asset	21
(Decrease) in opening retained earnings	**(55)**

The approximate impact on the statement of comprehensive income for the period ended 30 June 2020 across the following line items are as follows:

	In Thousands of New Zealand Dollars
Decrease in operating lease expense recognised within Rental and operating leases	486
Increase in depreciation and amortization expense	(427)
Increase in finance costs (recognised as interest expense)	(81)
(Decrease) in profit before taxation	**(22)**

The above has no cash effect on the Group and the change is for financial reporting purposes only.

No change is expected for the accounting for finance leases.

Current estimates are likely to change at time of adoption and for the period ending 30 June 2020, mainly due to:

- Finalisation of management's judgements and subsequent movements in the inherent borrowing rate (interest rates);
- Change in management's judgement to exercise rights of renewals under lease arrangements;
- Changes to existing lease contracts;
- Clarification of tax rules impacting the recognition of deferred tax assets; and
- New lease contracts entered into by the Group.

(C) 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.

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.

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.

(D) 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.

(E) 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.

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.

(F) REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer (i.e. when the Group delivers its performance obligations under the contract) at an amount that reflects the consideration to which Group expects to be entitled in exchange for those goods or services. Group recognises revenue from sales of goods and contracting services.

i. Sales of goods

Revenue from sales of goods is recognised at the point in time when the goods are delivered to the customer, and the customer has accepted the products, which is when the control of the goods has transferred to the buyer and at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

ii. Construction contracts

The Group derives revenue from the design, manufacture, transportation and installation of proprietary equipment or automated robotic handling systems to a range of industries across New Zealand and overseas. These contracts are typically determined to have one single performance obligation which are integrated and are fulfilled over time.

Occasionally contracts can be entered into for a construction contract that includes the supply of significant materials. Where this occurs, the Group will identify the multiple performance obligations and allocate the total transaction price across each performance obligation based on stand-alone selling prices. Where supply of significant materials is identified as a separate performance obligation, it is fulfilled at a point in time and is recognised as the same way as sales of goods.

The transaction price is normally fixed at the start of the project. The nature of construction contracts can sometimes lead to variations in the job scope which is known as contract modification. It is also normal practice for contracts to include bonus and penalty elements based on timely construction or other performance criteria known as variable consideration. An estimate of variable consideration is included in the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur when any uncertainty is subsequently resolved.

Under the terms of the verbal or written contracts, the Group is contractually restricted from redirecting proprietary equipment or automated robotic handling system equipment to another customer and has an enforceable right to payment for work done. Therefore NZ IFRS 15.35(c) satisfies and the Group recognise revenue in relation to contracting service over time.

Contract assets are initially recognised at fair value. They are subsequently adjusted for credit impairment loss.

The Group becomes entitled to invoice customers for construction of proprietary equipment or automated robotic handling system based on achieving a series of performance-related milestones. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

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.

(G) INCOME TAX

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

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

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

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

(H) 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.

(I) LEASES

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

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.

(J) FINANCIAL ASSETS MEASURED AT AMORTISED COST

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).

(K) CASH AND CASH EQUIVALENTS

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

(L) 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.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, contract assets and lease receivables, the Group applies a simplified approach in calculating ECLs. The Group recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 the allowance account held for trade receivables. Subsequent recoveries of amounts previously written off are credited against ‘other expenses’ in the profit or loss.

Write off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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.

(M) INVENTORIES

i. Raw materials and finished goods

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

ii. Contract asset and contract liability

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the value of performance to date is presented as a contract asset, excluding any amounts presented as a receivable. A contract asset is the Group’s right to consideration in exchange for goods or services that the entity has transferred to a customer.

If a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is the Group’s obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

(N) 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.

(O) 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.

(P) 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.

(Q) 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.

(R) INTANGIBLE ASSETS

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.

i. 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.

ii. 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.

(S) 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.

(T) 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.

(U) PROVISIONS

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

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

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

(V) 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.

(W) 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.

(X) DIVIDENDS

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

(Y) 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.

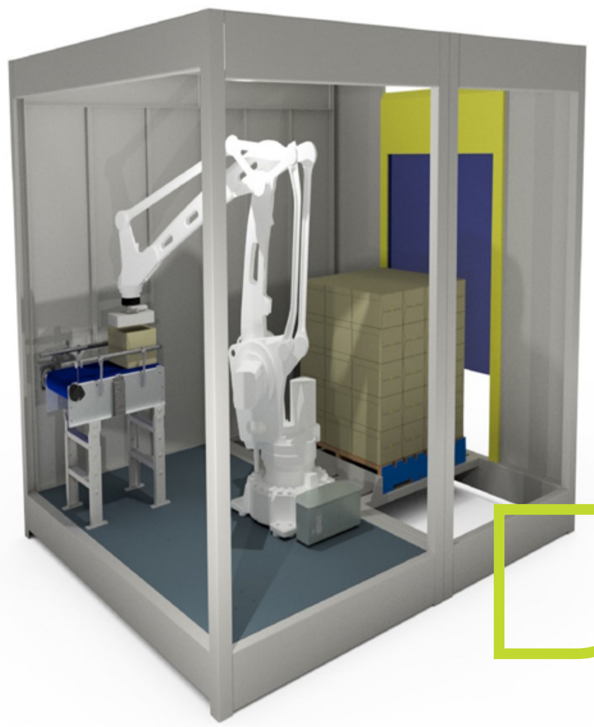
Diluted earnings per share is calculated by dividing the profit attributable to the Group by the weighted average number of ordinary shares on issue during the year adjusted to assume conversion of dilutive potential of ordinary shares as a result of warrants on issue, and the issue of share options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

(Z) SHARE-BASED PAYMENTS

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

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



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.

Contracting services

The Group considered the detailed criteria for the recognition of revenue set out in NZ IFRS 15 and, in particular, whether the Group has an enforceable right to payment for performance completed to date for its contracting services. Under the terms of the verbal or written contracts, the Group is contractually restricted from redirecting proprietary equipment or automated robotic handling system equipment to another customer and has an enforceable right to payment for work done. Revenue from construction of contracting services is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. 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. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under NZ IFRS 15.

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 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 using a value in use model. Determining value in use 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 2019 the Group recorded a net deficit after finance costs and taxation of $1,034,000. The net loss includes a $1,000,000 full and final settlement with Fonterra to conclude matters relating to the Edendale silo failure that occurred in September 2016.

Post year end the Company has renegotiated its banking facilities, which include covenants which first become applicable as at 31 December 2019. The Company maintains two term facilities with limits of $5,000,000 and $949,520. Both these facilities mature on 30 September 2020. The Company also had a total of $1,000,000 overdraft facilities with $985,000 available limit at balance date, the Group also had cash balances of $3,688,000 cash on hand as at balance date. As at balance date the available limit and cash provided Group liquidity of $4,672,000.

Over the course of the year a strategy to broaden Haden & Custance (H&C) sales focus from cheese handling equipment to other protein sectors; poultry and red meat was implemented. H&C's sales revenue increased by 67% year on year. Milmeq has contracted orders for the next 15 months which allows the business to focus on the execution and delivery of projects. With the banking facilities renegotiated, the board has approved the annual budget and cash flow forecast that shows the Group profitable and positive operating cash flow for the year ended 30 June 2020. 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.

The directors remain confident that these factors, 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.

The Group holds the following financial instruments:

In Thousands of New Zealand Dollars	Financial assets at amortised cost	Financial assets at fair value through profit and loss	Financial liabilities at fair value through profit and loss	Financial liabilities held at amortised cost
GROUP 2019				
Cash and cash equivalents	3,688	-	-	-
Trade receivables	5,143	-	-	-
Receivable from other debtors	539	-	-	-
Finance lease receivables	304	-	-	-
Trade and other payables	-	-	-	(7,758)
Derivative financial instruments	-	-	-	(8)
Borrowings and overdraft	-	-	-	(6,370)
	9,674	**-**	**-**	**(14,136)**
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)**

(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 2019 the Group had $3,949,000 (2018: $1,479,000) of foreign exchange risk.

The below table shows the sensitivity of the Group 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.

		+10% and $000		-10% and $000	
In Thousands of New Zealand Dollars	Foreign currency amount assets (liabilities)	Post tax Profit Increase (decrease)	Equity Increase (decrease)	Post tax Profit Increase (decrease)	Equity Increase (decrease)
30 June 2019	2,807	(281)	(281)	281	281
30 June 2018	635	(64)	(64)	64	64

In Thousands of New Zealand Dollars	2019	2018
Cash		
Australian dollar	2,640	-
United States dollar	29	137
Trade receivables		
UK Pound	2	-
Australian dollar	254	3
United States dollar	562	737
Euro	2	-
Trade payables		
UK Pound	(9)	-
Australian dollar	(466)	(150)
United States dollar	(186)	(58)
Euro	(14)	(7)
Derivative financial		
United States dollar	(8)	(27)
	2,806	**635**

Concentrations of foreign currency exposure

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

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 (2018: Nil).

The below 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 $6,370,000 (2018: $7,233,000).

GROUP

In Thousands of New Zealand Dollars Financial Liabilities	Carrying amount	+1 pp and $000 Post tax profit	+1 pp and $000 Equity	-1 pp and $000 Post tax profit	-1 pp and $000 Equity
2019	6,370	(45)	(45)	45	45
2018	7,233	(51)	(51)	51	51

(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 2019 the Group had exposure to significant debtors greater than 10% of net equity of $2,053,000 (2018: 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.

All financial liabilities are due in less than 12 months including liabilities associated with:

- BNZ Bank Loans. $5,516,000 (including interest and principal) are due within 12 months. The principal balance is $5,319,000 (2018: $6,286,000). See Note 20.

Contingent liabilities disclosed in Note 26 amount to $2,955,000 (2018: $3,904,000). 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.

2019	Effective interest rate	Balance	>1 year	1 - 2 years	2 - 5 years	Total cashflow
Bank loans and overdrafts	5.6%	5,531	5,531	-	-	5,531
Other loans	0%	1,036	1,036	-	-	1,036
Trade and other payables		7,758	7,758	-	-	7,758
Total		**14,325**	**14,325**	**-**	**-**	**14,325**
2018						
Bank loans and 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**

The Group was compliant with banking covenants at 30 June 2019 and throughout the year.

(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.

In Thousands of New Zealand Dollars	2019	2018
Equity $'000	3,415	4,444
Total assets $'000	24,125	19,406
Equity Ratio	**14.2%**	**22.9%**

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

(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.

5 SEGMENT INFORMATION

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

Haden & Custance Automated Solutions: This division houses the Group's automation brands. It designs, manufactures, delivers and services automated solutions to a range of industries predominantly, in the food sectors. H&C markets and sells its core cheese systems, as well as the Groups other brands which include AiCo, Beta, Titan Slicer and most recently Milmeq product ranges. During the year the Group acquired the assets of Milmeq chilling and freezing business. The Milmeq name is an established and respected brand in designing, manufacturing and installing chilling and freezing tunnels and plate freezing systems. Milmeq also has an asset management business that provides service, spare parts and support to its customers this, this compliments H&Cs already existing service and spares business. There is significant customer crossover between H&C and Milmeq. This should allow the combined business to provide further automated products and solutions to its customer base, leveraging the complimentary skills of the two businesses.

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 group's food processing and packaging brands.

Mercer Technologies: This division manages the Group's research and development that sits outside of the automation business.

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) by segment.

	2019			2018		
In Thousands of New Zealand Dollars	**Total sales of contract revenue**	**Total sales of goods**	**Segment result (EBITDA)**	**Total sales of contract revenue**	**Total sales of goods**	**Segment result (EBITDA)**
Stainless Fabrication	12,038	4,045	780	14,066	4,448	1,055
Haden & Custance	22,176	4,474	471	11,299	1,204	(1,595)
Mercer Technologies	-	-	(3)	6	-	5
Corporate	-	-	(438)	-	-	(887)
Intersegment eliminations	(4,643)	-	-	(2,204)	-	-
Sales, EBITDA	**29,571**	**8,519**	**810**	**23,167**	**5,652**	**(1,422)**
Depreciation and amortisation	-	-	(401)	-	-	(410)
Finance costs	-	-	(319)	-	-	(491)
Inventory adjustments	-	-	-	-	-	(1,938)
Impairment of intangible assets	-	-	-	-	-	(822)
Abnormal expenses	-	-	(1,111)	-	-	-
Impairment of tangible assets	-	-	-	-	-	(857)
Income tax credit (charge)	-	-	(13)	-	-	(1,901)
Sales, deficit after tax	**29,571**	**8,519**	**(1,034)**	**23,167**	**5,652**	**(7,841)**

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

The Group and its insurers have settled all potential claims associated with the collapse of a silo at Fonterra's Edendale site in 2016. Apart from the $1,000,000 cash settlement the Group will undertake $3,000,000 of work over a three year period at a discounted rate. The outstanding balance to be paid as of 30 June 2019 is $869,000.

Segment assets are:

In Thousands of New Zealand Dollars	2019	2018
Stainless Fabrication	1,494	1,708
Haden & Custance	6,827	4,262
Mercer Technologies	5,040	4,839
Corporate	10,764	8,596
Total	**24,125**	**19,405**

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

In Thousands of New Zealand Dollars	2019	2018
Customer A	-	4,284
Customer B	-	3,518

Depreciation and amortisation analysed by segment was:

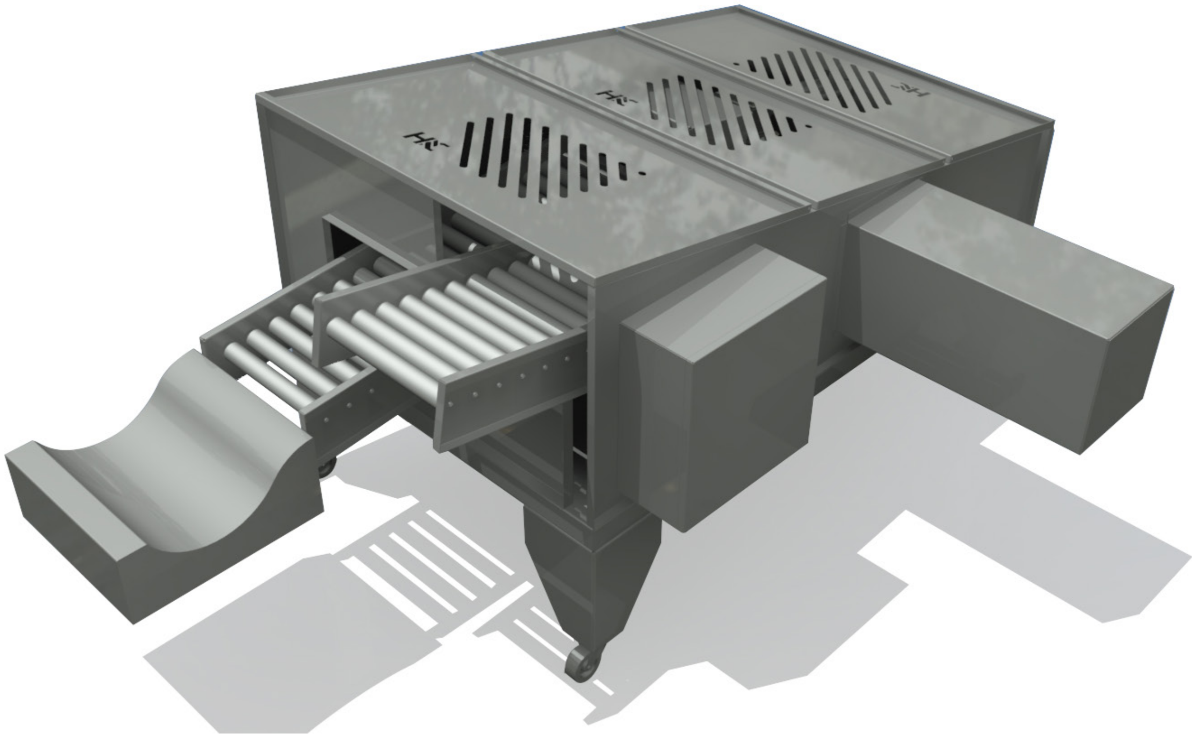
Stainless Fabrication	213	211
Haden & Custance	81	97
Mercer Technologies	97	75
Corporate	10	27
Total	**401**	**410**

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

Stainless Fabrication	1,031	1,122
Haden & Custance	802	258
Mercer Technologies	4,091	3,891
Corporate	5,621	5,694
Total	**11,545**	**10,965**

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

New Zealand	11,494	10,964
Australia and USA	51	1
Total	**11,545**	**10,965**



6 SALE OF GOODS AND CONTRACT REVENUE

In Thousands of New Zealand Dollars	2019	2018
Sale of goods (point in time)		
Australia and USA	2,629	170
New Zealand	5,890	5,482
Contracting service (overtime)		
Australia and USA	14,587	9,461
New Zealand	14,984	13,706
Total	**38,090**	**28,819**

7 CONTRACT REVENUE MOVEMENTS

In Thousands of New Zealand Dollars	2019	2018
Revenue recognised included in contract liability at the beginning of the period	1,781	371

8 OTHER EXPENSES

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

In Thousand of New Zealand Dollars	Notes	2019	2018
Foreign exchange (gains)/losses		(39)	25
Advertising		88	88
Movement in expected credit loss	12	(25)	(467)
Bad debts written off		71	303
Impairment of other debtors		-	749
Communication costs		101	101
Postage, printing and stationery		37	75
Bank charges		235	188
Electricity costs		148	136
Employee on-costs			
Superannuation		214	88
Accident compensation premiums		105	36
Insurance		509	400
Vehicle expenses		145	139
Directors fees	28	127	154
Consultancy fees		185	188
Legal		94	32
Repairs and maintenance		824	781
Recruitment		102	53
Staff amenities, safety & training		224	236
Research and development		1	31
Travel and accommodation		296	477
Entertainment		19	21
Fees paid to auditors (Deloitte Limited)			
Advisory services - new accounting standard workshop		-	10
Other assurance services		2	12
Audit of financial statements - relating to prior year		25	18
Audit of financial statements - relating to current year		136	95
Other expenses		204	483
Other expenses		**3,828**	**4,452**

9 SALARIES AND WAGES

Salary and wages exclude the following amounts that have been recovered into labour for internally generated development assets $151,611 (2018: $155,000).

10 INCOME TAX

(A) INCOME TAX (CREDIT) CHARGE

In Thousands of New Zealand Dollars	Notes	2019	2018
Current tax		13	-
Deferred tax	17	-	1,901
Income tax (credit) charge		**13**	**1,901**

(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE

Deficit before tax expense	**(1,021)**	**(5,940)**
Tax at the New Zealand rate of 28%	(286)	(1,663)
Prior year tax adjustment	7	246
Expenditure not deductible for tax	34	764
Current year tax losses in Australia and (profit) USA not recognised	8	(33)
Tax losses not recognised	228	2,587
Other	22	-
Income tax (credit) charge	**13**	**1,901**
Total Income tax (credit) charge	**13**	**1,901**

(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 decided to derecognise a deferred tax asset related to losses 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 not to take any further the benefits of the tax losses in addition to the opening balance as of 30 June 2019.

At 30 June 2019 there were $13,177,000 (2018:$12,084,000) of unrecognised Australian tax losses, representing a tax benefit of $3,953,000 (2018: $3,625,000).

At 30 June 2019 there were $20,222,000 (2018:$19,408,000) of unrecognised New Zealand tax losses, representing a tax benefit of $5,662,000 (2018: $5,434,000).

(D) IMPUTATION CREDIT ACCOUNT

In Thousands of New Zealand Dollars	2019	2018
Credits available to shareholders of the company	-	-

11 CASH AND BANK BALANCES

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.

In Thousands of New Zealand Dollars	2019	2018
Cash at bank and in hand	3,688	671
Less bank overdraft	(15)	(947)
Cash and cash equivalents per cash flow statement	**3,673**	**(276)**

12 ACCOUNTS RECEIVABLE, OTHER DEBTORS AND PREPAYMENTS

In Thousands of New Zealand Dollars	2019	2018
Trade receivables	5,187	4,472
Less provisions for doubtful receivables	(44)	(69)
Total accounts receivables	**5,143**	**4,403**
Impairment provision		
Provision for doubtful debts at 1 July	(69)	(536)
Decrease (increase) in provision	25	467
Provision for doubtful debts at 30 June	**(44)**	**(69)**
Past due and impaired receivables		
1 to 3 months	-	-
Over 3 months	44	69
	44	**69**
Past due but not impaired receivables		
1 to 3 months	5,143	4,400
Over 3 months	-	3
	5,143	**4,403**

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

The Group was required to revise its impairment methodology under IFRS 9 for trade receivables. The expected credit loss allowance as at 1 July 2019 was determined as follows for trade receivables:

In Thousands of New Zealand Dollars Gross carrying amount	Current	30-59 days	60-89 days	90 days and later	Total
Balance outstanding	4,429	615	137	6	5,187
Total expected credit loss rate	0.3%	3.2%	6.8%	23.6%	0.8%
Expected credit loss allowance	**14**	**19**	**9**	**1**	**44**

In FY2019 balances outstanding and total credit loss in 60 days and 90 days aged groups have gone down due to better control over accounts receivable at group level. The expected credit loss rate however is higher because the base i.e. Balances outstanding, had a greater decrease than did total credit loss.

Current
Other debtors and prepayments

In Thousands of New Zealand Dollars	2019	2018
Other debtors	539	329
Prepayments	164	68
Cash and cash equivalents per cash flow statement	**703**	**397**

13 FINANCE LEASE RECEIVABLE

In Thousands of New Zealand Dollars	2019	2018
Current Finance lease receivable	11	13
Non Current Finance lease receivable	293	303
	304	**316**

The Group has entered into a finance lease arrangement for multiple silos. The term of the lease is 16 years. No impairment (expected credit loss) is recognised.

14 INVENTORIES

In Thousands of New Zealand Dollars	2019	2018
Construction contracts		
Contract assets	2,927	2,690
Contract liabilities	(8,252)	(4,471)
Net contract liabilities	**(5,325)**	**(1,781)**
Other Inventory		
Raw materials and components	581	638
Finished goods	1,909	1,774
Total inventories	**2,490**	**2,412**

The provision relating to inventories which have been written down to estimated net realisable value amounted to $2,179,000 (2018: $2,523,000).

15 PROPERTY, PLANT AND EQUIPMENT

In Thousands of New Zealand Dollars	Freehold land	Buildings	Plant and equipment	TOTAL
At 1 July 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**
Year ended 30 June 2019				
Opening net book value	2,654	2,666	1,101	6,421
Acquisition	-	-	94	94
Additions	-	-	187	187
Depreciation	-	(85)	(228)	(313)
Disposals	-	-	(59)	(59)
Closing net book value	**2,654**	**2,581**	**1,095**	**6,330**
At 30 June 2019				
Cost/Valuation	2,654	2,837	9,114	14,605
Accumulated depreciation	-	(256)	(8,019)	(8,275)
Net book value	**2,654**	**2,581**	**1,095**	**6,330**

Land and buildings at 53 Lunns Road, Christchurch was revalued to $4,250,000, less $857,000 worth of estimate earthquake repair costs on 30 June 2016. Land and buildings at Corbett Road, 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 include comparison with rental and sales evidence of other similar properties. On 12 October 2018, instructed by management Telfer Young has performed a desktop review on land and building at Corbett Rd, Bell Block and concluded a small uplift compared to 2016 valuation however the difference is not material. The earthquake repair is still on-going for Land and buildings at 53 Lunns Road and the board doesn't believe there is any indication of impairment or material uplift compared to 2016 valuation until the repairs are complete. Therefore, the Directors consider that the carrying amounts of land and buildings are not significantly different from their fair value at 30 June 2019.

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:

In Thousands of New Zealand Dollars	2019	2018
Cost	3,026	3,026
Accumulated depreciation	(1,262)	(1,171)
Net book value	**1,764**	**1,855**

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.

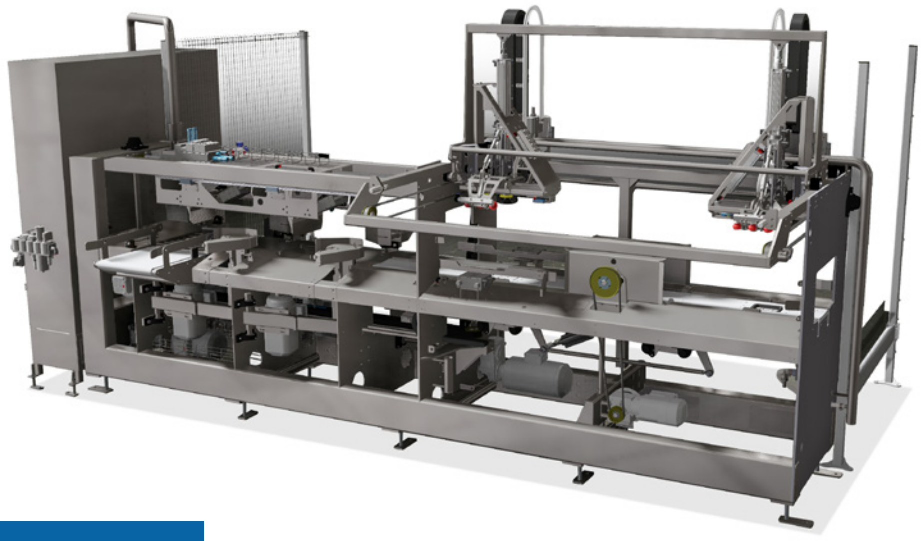
The table below summarises the valuation approach and the principle assumptions used in establishing the fair values in 2016:

Asset classification description and valuation approach

In Thousands of New Zealand Dollars	Valuer	Fair value at 30 June 2016	Inputs used to measure fair value	Range of significant unobservable inputs	Weighted average
Land					
Income	Tefler Young	2,654	Rental Growth	2.00%	
			Discount rate	11.10%	11.10%
Capitalisation approach and discounted cashflow approach			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	Tefler Young	2,837*	Rental Growth	2.00%	
			Discount rate	11.10%	11.10%
Capitalisation approach and discounted cashflow approach			Terminal Yield	7.50%-9.00%	8.27%
			Net market Income per m2	$50-$122	$86
			Capitalisation rate	**7.00%-9.75%**	**8.27%**

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

NON-CANCELLABLE SUBLEASE RECEIVABLES



Fair value measurement sensitivity to significant unobservable inputs:

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

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

16 INTANGIBLE ASSETS

In Thousands of New Zealand Dollars	2019	2018
Goodwill		
Cost	356	1,125
Impairment	-	(769)
Net book value	**356**	**356**
Opening balance	356	1,125
Impairment	-	(769)
Closing balance	**356**	**356**
Acquired patents, trademarks and licences		
Cost	734	748
Accumulated amortisation and impairment charges	(293)	(327)
Net book value	**441**	**421**
Opening balance	421	298
Additions	38	188
Impairment	-	(53)
Amortisation	(18)	(12)
Closing balance	**441**	**421**
Intellectual property		
Cost*	4,431	3,696
Accumulated amortisation and impairment charges	(306)	(232)
Net book value	**4,125**	**3,464**
Opening balance	3,464	3,262
Acquisitions	250	-
Additions	481	282
Impairment	-	(70)
Amortisation	(70)	(10)
Closing balance	**4,125**	**3,464**
Total intangible assets	**4,922**	**4,241**

*$3,792,000 relates to the S-Clave project (2018: $3,591,000)

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.

In Thousands of New Zealand Dollars	2019	2018
Haden & Custance Automated Solutions	356	356
Total	**356**	**356**

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 Haden & Custance relates to the acquisition in December 2016.

Goodwill has been tested for impairment as at 30 June 2019. 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. 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 $3,792,000 of intellectual property, was not yet available for use as at 30 June 2019 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. In the twelve months to 30 June advances have been made on ensuring the integrity of sealing the containers to withstand the required testing for the sterilisation cycle. The project has benefited from the engagement of new partners who have brought specialist knowledge and solutions to develop a workable prototype as a step toward commercial trials. A five year cash flow forecast has been used to estimate the asset's value in use, discounted at a rate of 20%. On this basis the carrying value of the asset has been deemed to be unimpaired. The directors are confident that S-Clave will begin commercialisation in the 2020 financial year. Movement in the above discount rate by 3% or if estimated cashflows were to reduce by 20% there would be no impairment.

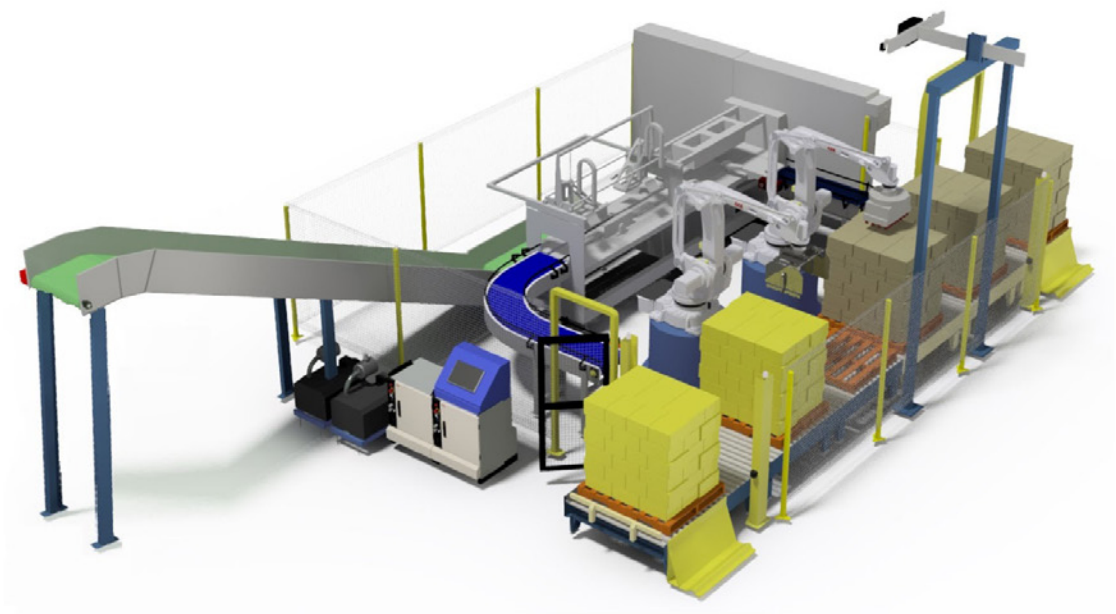
17 DEFERRED TAX ASSET

In Thousands of New Zealand Dollars	Buildings	Other Temporary Differences	Tax Losses	Total
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**
Balance at 1 July 2018	(265)	531	279	545
Amounts charged (credited) to profit and loss	-	-	-	-
Balance at 30 June 2019	**(265)**	**531**	**279**	**545**

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

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 it was deemed appropriate to take the benefits of the tax losses as profits are generated. As at 30 June 2019 there were $5,662,000 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 2020. The budget indicates that there will be sufficient future taxable profits available for the Group to utilise the tax assets recognised.



18 INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

Subsidiaries	Activities	Location	2019 % ownership	2018 % 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%
Haden and Custance (USA) Incorporated	Designs and manufactures automated handling systems	United States	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%
Milmeq 2018 Limited	Designs and manufactures chilling and freezing systems to the food industry	New Zealand	100%	0%
Milmeq Australia Pty	Designs and manufactures chilling and freezing systems to the food industry	Australia	100%	0%
Mercer Equipment Finance Limited	Non-trading subsidiary	New Zealand	100%	0%
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%

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 (2018: $Nil) recognised in the Group Statement of Comprehensive Income.

19 TRADE AND OTHER PAYABLES

In Thousands of New Zealand Dollars	2019	2018
Trade creditors	5,333	3,823
Fonterra settlement	869	-
Sundry creditors and accruals	1,556	1,112
Total creditors and accruals	**7,758**	**4,935**

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

20 BORROWINGS

In Thousands of New Zealand Dollars	2019	2018
Bank loans	5,319	6,286
Other loans	1,036	-
Total borrowings	**6,355**	**6,286**
Contractual maturity		
Within one year	6,355	370
Later than one year	-	5,916
	6,355	**6,286**

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

Subsequent to 30 June 2019 the Group has signed banking facilities with BNZ which were negotiated before balance date. The facilities included the following:

- Total term debt facility limits were $5,916,790, maturing 30 September 2020; and
- An overdraft facility of $1,000,000 repayable on demand.

21 SHARE CAPITAL

	Number of Shares		In Thousands of New Zealand Dollars	
	2019	2018	2019	2018
Issued and fully paid up capital	**64,520,706**	**64,520,706**	**44,366**	**44,366**
Balance at beginning of the year	64,520,706	57,595,206	44,366	41,522
Shares issued during the year	-	6,925,500	-	2,964
Capital raising costs	-	-	-	(120)
Balance at end of the year	**64,520,706**	**64,520,706**	**44,366**	**44,366**

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

In Thousands of New Zealand Dollars	2019	2018
Foreign currency translation reserve		
Balance at beginning of the year	(82)	(13)
Net exchange difference on translation of overseas subsidiaries	5	(69)
Balance at the end of the year	**(77)**	**(82)**
Share based payment reserves		
Balance at the end of the year	**211**	**211**
Asset revaluation reserve		
Balance at the end of the year	**2,871**	**2,871**
Total other reserves	**3,005**	**3,000**
Retained earnings		
Balance at beginning of the year	(42,922)	(35,081)
Deficit for the year	(1,034)	(7,841)
Balance at end of the year	**(43,956)**	**(42,922)**

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 (2018: Nil).

24 | EARNINGS PER SHARE

Basic and diluted

Basic earnings per share are calculated by dividing the profit (loss) attributed 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.

Weighted average number of ordinary shares in issue:

	Number of Shares	
	2019	**2018**
Basic	64,520,706	62,257,810
Warrants	-	-
Options	-	-
Equity based remuneration	-	-
Total	**64,520,706**	**62,257,810**
Deficit attributable to the shareholders of the Company ($000)	**(1,034)**	**(7,841)**
Basic earnings per share	**(1.60) cents**	**(12.60) cents**
Diluted earnings per share	**(1.60) cents**	**(12.60) cents**

Given the deficit in 2018 and 2019 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 one 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.

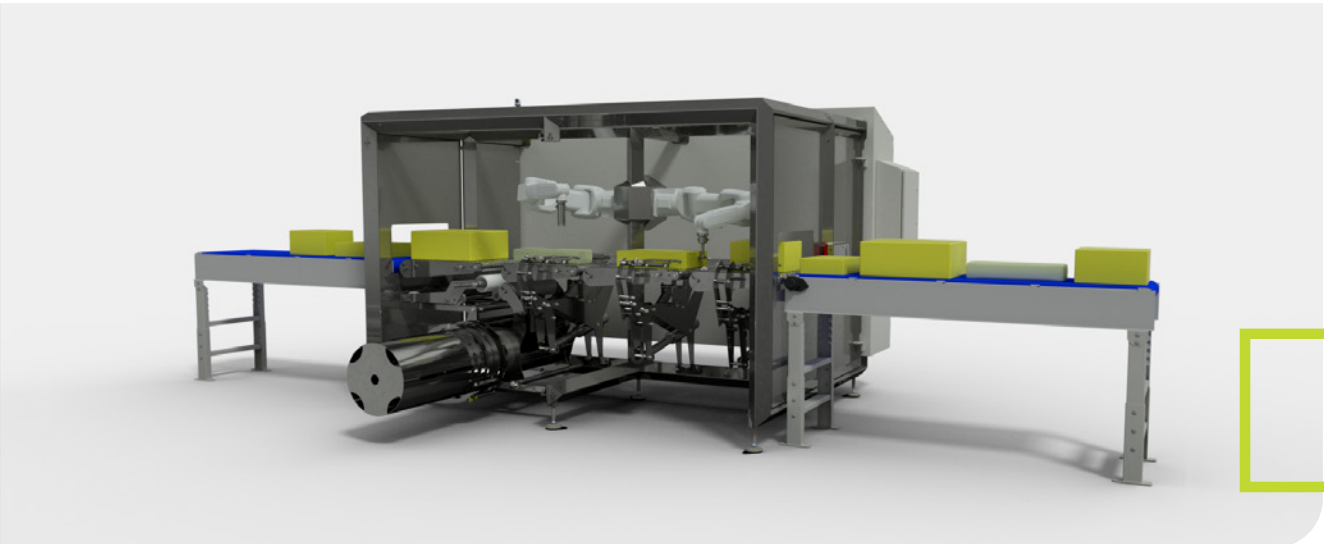
25 CHANGE IN WORKING CAPITAL

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

In Thousands of New Zealand Dollars	2019	2018
Trade creditors and employee entitlements	3,136	235
Trade debtors and prepayments	(1,048)	995
Inventories	(78)	1,078
Net contract liabilities	3,544	1,781
Total	**5,554**	**4,089**
Change in inventory provision	344	(1,441)
Change in expected credit loss	26	467
Net movement in Statement of Cashflows	**5,924**	**3,115**

26 CONTINGENT LIABILITIES

In Thousands of New Zealand Dollars	2019	2018
Guarantee to bankers for credit card facilities up to a limit of	130	149
Guarantees to bankers for bank guarantees issued to third parties from which it is anticipated that no material liabilities will arise	2,825	3,755
	2,955	**3,904**



27 COMMITMENTS

In Thousands of New Zealand Dollars	2019	2018
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
	-	**170**
OPERATING LEASE COMMITMENTS		
Non-cancellable		
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows		
Within one year	494	436
Later than one year but not later than five years	1,351	954
Later than five years	-	-
	1,845	**1,390**

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.

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, G Rolleston and P Smart.

(B) KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation for the year ended 30 June 2019 and the year ended 30 June 2018 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.

In Thousands of New Zealand Dollars	2019	2018
Short term benefits	942	1,029
Long term benefits	62	48
Directors' fees	127	154
Total	**1,131**	**1,231**

(C) EQUITY INSTRUMENTS

i. Share options

In November 2017, Mr J Dennehy, director and board chairman, 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.

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.

The August 2018 tranche of the equity option instruments expired worthless, leaving the final tranche due to expire 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.

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

	2019		2018	
In Thousands of New Zealand Dollars	**Average exercise price in cents per share option**	**Options**	**Average exercise price in cents per share option**	**Options**
At beginning of period	38.00	2,514	10.36	14,429
Issued	-	-	38.00	2,514
Expired	38.00	(1,625)	10.36	(14,429)
At end of period	**45.00**	**889**	**38.00**	**2,514**

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

Grant date	Vesting expiry date	Exercise price in cents per share option	2019 Shares	2018 Shares
November 2017	August 2018	40.00	-	625
November 2017	August 2018	30.00	-	1,000
November 2017	August 2018	45.00	889	889
			889	**2,514**

(D) 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.

29 ACQUISITION

A) BUSINESS ACQUIRED

Entity	Principal Activity	Date of Acquisition	Voting Equity interests	Consideration Transferred
Milmeq 2018 Limited	Design, manufacture and installation	28/02/2019	100%	50
Milmeq Australia Pty Ltd	of chilling and freezing equipment	28/02/2019	100%	0

The business and assets of Milmeq Limited and Milmeq Australia Pty Limited were acquired so as to continue the expansion and recognition of the Group activities in machine manufacturing.

B) ASSETS ACQUIRED AND LIABILITIES RECOGNISED AT THE DATE OF ACQUISITION

In Thousands of New Zealand Dollars	2019
Current Assets	
Cash and bank balances	2,679
Other debtors and prepayments	16
Inventories	60
	2,755
Non Current Assets	
Intangible assets	250
Property, plant and equipment	94
	344
Current Liabilities	
Net work in progress and progressive billings	1,679
Employee entitlements	109
Lease accruals	19
Borrowings	1,000
	2,807
Fair value of assets and liabilities acquired	**292**
Consideration paid/payables	**292**
Goodwill arising on acquisition	**-**

On 28 February 2019 the company acquired the net assets of Milmeq Limited chilling and freezing business. This business designs, manufactures and installs automated chilling and freezing tunnels and plate freezing systems into the meat, poultry, dairy and seafood industries globally. In addition to its core product offering, Milmeq has a growing asset management business that provides service, spare parts and support to its customers. There is significant customer crossover between H&C and Milmeq. This should allow the combined business to provide further automated products and solutions to its customer base, leveraging the complimentary skills of the two businesses. There is a variable component to the determination of the consideration payables as above. The deferred settlement will be re-assessed and paid out at the end of December 2019.

C) IMPACT OF ACQUISITION ON THE RESULT OF THE GROUP

From the date of acquisition Milmeq has contributed $3,200,000 of revenue and incurred a deficit after taxation of $92,000. Had Milmeq been acquired on the 1st July 2018, the revenue of the group would have been approximately $48,000,000, including a forecast after taxation profit from Milmeq, resulting in the Groups after tax deficit being reduced accordingly.

30 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 2019, 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 17 to 61, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019, 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, 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 $487,000.

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 for 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 2019, the Group incurred a deficit from operations after finance costs and taxation of $1,034,000 (2018:$7,841,000) and net cash inflows from operating activities was $4,904,000 (2018 outflows: $592,000). 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 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.	We assessed the current funding arrangements in place for the Group by: • obtaining relevant loan documentation and confirming the outstanding loan balances; • assessing whether there were any applicable covenant requirements; and • identifying any scheduled repayments or maturity of borrowings impacting the Group's cash outlays including funds facilities renewed subsequent to balance date. We evaluated the appropriateness of the going concern assessment prepared by the Group by: • challenging the reasonableness of the underlying assumptions used by the Group in preparing its cash flow forecast; • 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.
Impairment assessment of intellectual property in relation to S-Clave project - (policy (r) and Note 16)	
At 30 June 2019, the Group has intellectual property of $3,792,000 (2018: $ 3,591,000) relating to its Mercer Technologies businesses (S-Clave). The Group is required to assess, at least annually, whether this intangible asset is impaired. The recoverable amount of this intangible asset is highly dependent on the expected future cash flows to be generated by the underlying business and its viability for commercialisation. Should these expected future cash flows not eventuate, this intangible asset would be impaired. We have included impairment assessments of intellectual property as a Key Audit Matter due to the significance of this asset 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 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 asset. 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 specalists 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.

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

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

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 2019

This audit report relates to the consolidated financial statements of Mercer Group Limited (the 'Group') for the year ended 30 June 2019 included on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company's website. We accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. The audit report refers only to the consolidated financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these consolidated financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited consolidated financial statements and related audit report dated 29 August 2019 to confirm the information included in the audited consolidated financial statements presented on this website.

STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2019

Mercer Group Board of Directors

PRINCIPAL ACTIVITY

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

In accordance with the constitution, all directors will continue in Office, until the 2019 Annual General Meeting, when one director will retire by rotation. Directors being eligible, may offer themselves for re-election in accordance with the Company's constitution. Mr Rookes will continue his role as Chief Executive Officer.

DIRECTORS HOLDING OFFICE DURING THE PERIOD WERE:

	Remuneration	
Directors Holding Office	**2019**	**2018**
John Dennehy [Independent Chairman]	$76,250	$116,000
Paul Smart [Independent]	$43,250	$38,000
Richard Rookes	$0	$0
GHD Rolleston	$7,500	

COMMITTEES OF THE BOARD

The board has an Audit Committee and a Remuneration Committee.

AUDIT COMMITTEE

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

The committee members are:

- Paul Smart (Chairman)
- Richard Rookes
- John Dennehy

External auditors

The board ensures the auditor has a fair remuneration for the agreed scope of the statutory audit and audit-related services. This year the audit was performed by Deloitte.

Auditor's Remuneration	2019	2018
Audit of Financial Statements	$159,000	$65,000
Audit of Financial Statements relating to prior year	$0	$18,000
Other assurance services	$2,000	$12,000

REMUNERATION COMMITTEE

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

The committee members are:

- Paul Smart
- John Dennehy

EMPLOYEE REMUNERATION

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

	2019	2018
$100,000 - 109,999	6	7
$110,000 - 119,999	5	5
$120,000 - 129,999	2	2
$130,000 - 139,999	3	1
$140,000 - 149,999	1	1
$150,000 - 159,999	2	1
$160,000 - 169,999		-
$170,000 - 179,999		1
$180,000 - 219,999	1	1
$220,000 - 280,000	1	1
$281,000 - 349,999	1	1

Note that these figures include equity based payments amounting to $Nil (2018: $Nil) for share payments (see note 20) of the Group Financial Statements.

Diversity

At 30 June 2019, Mercer Group employed 145 staff, including 63 in the workshop, of which 130 (90%) were male and 15 (10%) were female. Compared to 2018 where 120 (93%) were male and 9 (8%) were female employees. MGL encourages representation across both genders and all ethnicities and have a policy hiring on merit.

The four directors and two officers of the company at 30 June 2019 are male compared to three male directors and two male officers in 2018.

CORPORATE GOVERNANCE PROCESSES

Pursuant to NZX Listing Rule 10.4.5(i) the Company is required to disclose in this Annual Report the extent to which its corporate governance processes materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

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

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

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

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

DIRECTORS' INTEREST REGISTER

Where a director has declared an interest in a particular entity, as a shareholder and/or director, the declaration serves as a notice that the director may benefit from any transaction between the parent or Group and the identified entities.

DIRECTORS NOTICE

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

DIRECTORS' INDEMNITY AND INSURANCE

Mercer Group Limited has arranged a policy of directors' liability insurance that ensures that officers and directors will not generally incur monetary losses as a result of actions undertaken by them as directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of the law. The total cost of this insurance for the financial year was $51,750.

DONATIONS

Mercer Group made no donations during either year.

Name of Director	Appointed	Appointment	Description of Interest
John Dennehy	26-Feb-15	Non-executive Independent Chairman and a member of the Audit Committee	Director – Zagato Limited Director – Kiwirail Holdings Limited Shareholder – Avanti Finance Shareholder – Railway Finance
Richard Rookes	21-Feb-11	Executive and member of the Audit Committee	
Paul Smart	31-Jul-12	Non-executive and independent Chairman of the Audit Committee	Director – Sunrise Consulting Ltd Director – Solar City Trustee – Bellbird Trust Trustee – Saddleback Trusts Director & Chair Audit Committee – Entrada Group Director – Rubion Director – Argus Director – Geo40
GHD Rolleston	28-Feb-19	Non-executive director	Director/Shareholder – PlantMiner Pty Ltd Director/Shareholder – Travlr Pty Ltd Director/Shareholder – Matrix Pty Ltd (NZ) Director/Shareholder – Suubee Pty Ltd Director/Shareholder – Rolleston Investment Trust Director/Shareholder – Asset growth Fund Pty Ltd Director/Shareholder – Rolleston Capital Director/Shareholder – Spaceships Australia

DIRECTORS' SHAREHOLDING

Directors Shareholding	Voting Securities Total	Beneficial Interest		Associated Persons		Non Beneficial	
		2019	2018	2019	2018	2019	2018
GHD Rolleston							
Asset Management		27,778,788	27,778,788	-	-	-	-
Asset Trading		99,542	99,542	-	-	-	-
National Mortgage		269,486	269,486	-	-	-	-
	28,147,806	**28,147,806**	**28,147,806**	**28,147,806**	**28,147,806**	**-**	**-**
	43.6%						
J Dennehy							
Zagato Limited	500,000	500,000	500,000	-	-	-	-
John Francis Dennehy	30,000	30,000	30,000	-	-	-	-
Nominee A/c	50,700	50,700	50,700	-	-	-	-
	580,700	**580,700**	**580,700**	**-**	**-**	**-**	**-**
	0.9%						
P Smart							
Sunrise Consulting Ltd	257,500	257,500	257,500	-	-	-	-
	257,500	**257,500**	**257,500**	**-**	**-**	**-**	**-**
	0.40%						
R Rookes							
Richard George Rookes	902,500	602,500	602,500	-	-	-	-
	902,500	**602,500**	**602,500**	**-**	**-**	**-**	**-**
	1.40%						
Total shares in issue at 30 June 2019	**64,520,706**						

SHAREHOLDERS ANALYSIS

The shareholder information detailed in this report has been taken from the Companies Register as at 30th June 2019.

DOMICILE OF SECURITY HOLDERS

	Number of holders	%	Number of shares held	%
New Zealand	610	97.29	64,045,397	99.26
Australia	11	1.75	30,342	0.05
United Kingdom	1	0.16	19	0.00
China	1	0.16	331,675	0.2
Other	4	0.64	113,583	0.6
	627	**100.0**	**64,520,706**	**100.0**

RANGE OF SHAREHOLDINGS

	Number of holders	%	Number of shares held	%
1 to 1,000	294	46.89	75,913	0.12
1,001 to 5,000	105	16.75	267,229	0.41
5,001 to 10,000	49	7.81	371,762	0.58
10,001 to 100,000	127	20.26	5,291,268	8.20
100,001 and over	52	8.29	58,514,534	90.69
	627	**100.0**	**64,520,706**	**100.0**

SUBSTANTIAL SECURITY HOLDERS

The following information is given in accordance with Section 293 of the Finance Markets Conduct Act 2013. According to notices received, the following persons were substantial security holders in the Company as at 30th June 2019:

HJD Rolleston

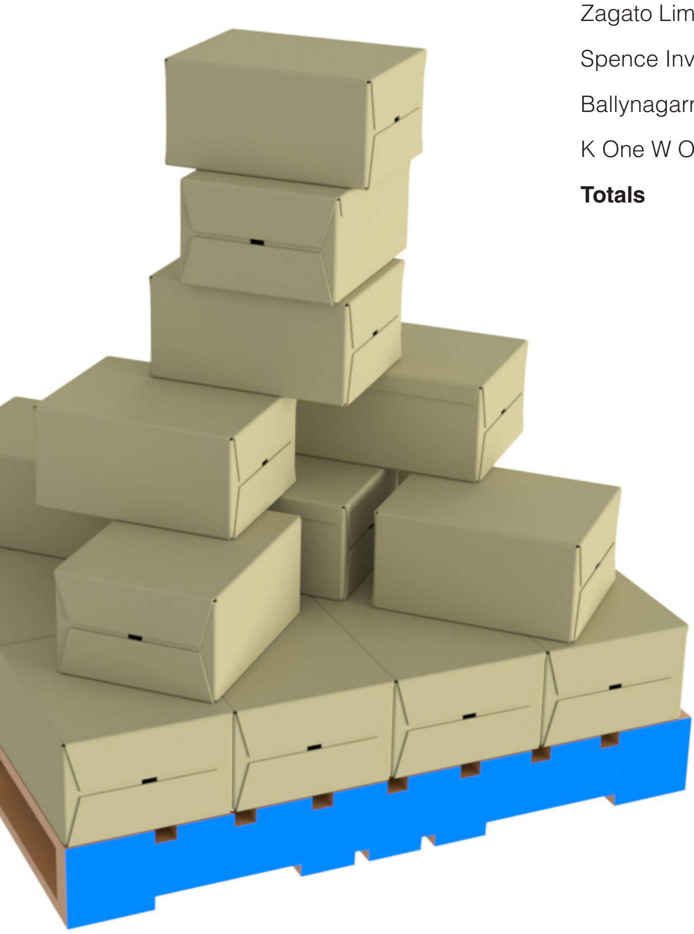
Relevant interest voting securities
33,947,114*

% of shares
52.61

* The total number of voting securities of the Company on issue at 30th June 2019 was 64,520,706.

SHAREHOLDER INFORMATION

The information in the disclosure below have been taken from the Companies register at 30th June 2019.



Twenty largest shareholders:

Holder	Number held	% of Issue Capital
Asset Management Limited	27,778,788	43.05%
Humphry John D Rolleston	5,799,298	8.99%
Alison Mercer Limited	3,750,000	5.81%
Forsyth Barr Custodians	3,199,762	4.96%
New Zealand Central Securities	2,308,350	3.58%
Leveraged Equities Finance	1,607,023	2.49%
Richard George Rookes	902,500	1.40%
Ian Alexander McGregor	875,500	1.36%
Rodger David Shepherd	720,517	1.12%
Whitford Equity Investments	714,286	1.11%
FNZ Custodians Limited	711,141	1.10%
William John Hedley Willis	691,377	1.07%
Paul Hewitson	676,801	1.05%
Richard Robson	500,000	0.77%
Stainley Park Limited	500,000	0.77%
Wairahi Holdings Limited	500,000	0.77%
Zagato Limited	500,000	0.77%
Spence Investment Holdings	497,512	0.77%
Ballynagarrick Investments	450,000	0.70%
K One W One Limited	375,000	0.58%
Totals	**53,057,855**	**82.23%**

Company Directory

REGISTERED OFFICE

53 Lunns Road
Middleton
Christchurch

SOLICITORS

Buddle Finlay
83 Victoria Street
Christchurch

SHARE REGISTRY

Link Market Services
PO Box 91976
Auckland 1142

BANKERS

Bank of New Zealand Limited
Level 1
86 Highbrook Drive
East Tamaki
Auckland 2013

AUDITORS

Deloitte
Level 4
151 Cambridge Terrace
Christchurch

Sites

CHRISTCHURCH

53 Lunns Road
Christchurch
Telephone +64 (3) 348 7039

HASTINGS

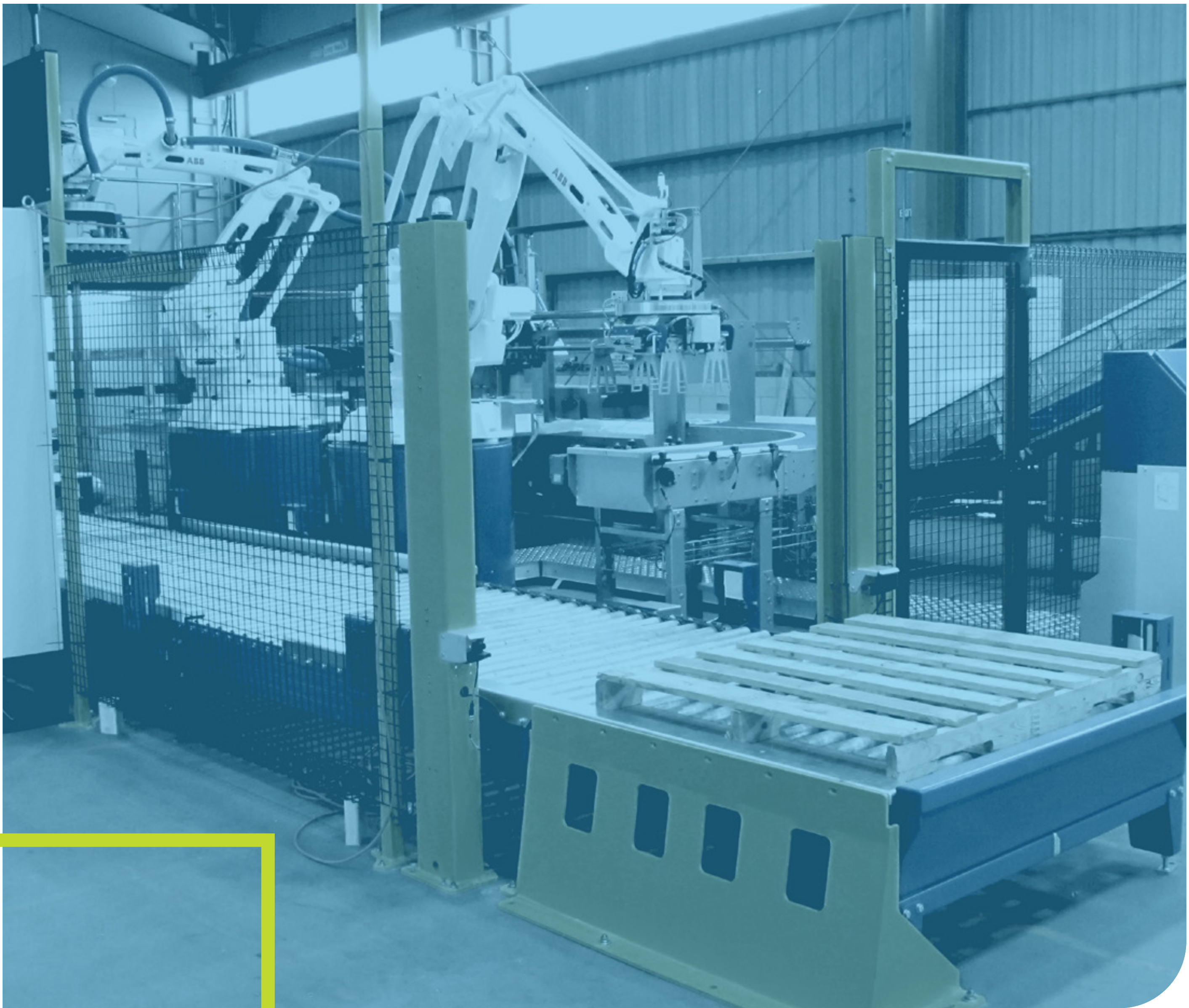
210 Wilson Road
Woolwich
Hastings
Telephone +64 (6) 872 7140

NEW PLYMOUTH

Corbett Road
Bell Block
New Plymouth
Telephone +64 (6) 755 1276

BRISBANE

Unit 3, 10 Moore Street
Acacia Ridge
QLD 4110
Australia
Telephone +61 (7) 3340 1100



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